

FINANCIAL TIMES

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TV in Russia From milkmaids to money Page 11



Today's surveys Insurance Poland Separate sections

World Business Newspaper WEDNESDAY MARCH 27, 1996

Italy seeks banks' support for sale of Banco de Napoli

The Italian government said it wanted to begin privatising the troubled Neapolitan bank, Banco di Napoli, before the end of next year, but only if other banks agree to back a rescue plan.

Selective plan backed by farmers UK set to destroy 4.5m cows

The UK is set to order the destruction of up to 4.5m dairy cattle when they come to the end of their productive lives, in an attempt to allay fears about the safety of British beef.

A worldwide ban on British beef, EU veterinary officials meeting in Brussels reaffirmed their call for a ban despite hearing evidence from Britain's top BSE experts on the measures being taken to contain the disease.

German exporters lose sales because of Internet

German exporters, battling against a strong currency and high labour costs, have found another cause for their declining share of international markets: the Internet.

German building strike looms: The threat of the first nationwide strike since the second world war in Germany's building industry appeared to grow after the failure of the first round of arbitration between unions and employers.

Basf, the German chemicals company, said it expected zero profits growth this financial year, but was considering acquisitions to use a mounting cash pile which stands at DM3.4bn (\$2.3bn).

Ireland hints at joining Nato: Ireland opened a potentially divisive debate about its policy of military neutrality with hints that its country would seek to join Nato's partnership for peace.

Two bidders in Telecom Eireann sale: Danish telecoms operator Tele Danmark and a partnership of Sweden's Telia and KPN of the Netherlands emerged as the only bidders in preliminary tenders for a 35 per cent stake in Irish state-owned telecoms company Telecom Eireann.

Germany wants short IGC agenda: Germany called for a short agenda at the European Union's intergovernmental conference that starts in Turin this week and expressed disappointment at Britain's refusal to accept greater integration in Europe.

Former US secretary of state dies: Former US secretary of state Edmund Muskie (left) has died after surgery and a heart attack. He was 81. Mr Muskie was vice-presidential running-mate to Hubert Humpirey's losing Democratic ticket in 1968 and was briefly a contender for the party's presidential nomination in 1972.

World car markets to shrink: The world motor industry faces more rationalisation, cuts and mergers due to overcapacity and weak demand in established markets, Ford chairman Alex Trotman said.

Thai tycoon in \$480m Asian TV deal: Thai media tycoon Sondhi Limthongkul joined the Asian satellite broadcasting market, signing contracts worth \$480m to build and launch two satellites which will form the basis of an Asian satellite TV network.

UAP, the French insurance group, announced its first full-year loss, of FF2.06bn (\$470m) for 1995, due to heavy provisions for property holdings and loans.

China hints HK concerns: Hong Kong's top officials serving after next year's handover to China will have to support a controversial provisional legislature due to replace the existing elected body, a Chinese official said.

Report criticises NAFTA: The North American Free Trade Agreement has cost jobs in the US, Canada and Mexico and damaged the environment on the US-Mexican border, a new report by a Washington think tank claims.

Clash over bank clearing plans: A plan by international banks to set up a global clearing bank to handle the daily flow of \$1,200bn across the world's foreign exchanges has run into opposition from one of the main organisations providing foreign exchange netting services.

US threatens China sanctions: US officials are reviewing the imposition of trade sanctions against China for its alleged transfer of nuclear technology and failure to abide by a bilateral intellectual property rights agreement.

Argentina chief hails share issues: The chairman of Spanish bank Argenta hails its \$1.1bn secondary share issue of a 25 per cent stake as a success but analysts greeted it with caution.

No agreement on air cargo talks: Japan and the US ended the second day of talks aimed at creating a new framework for air cargo transport without an agreement.

Russians wary as Uncle Sam offers them \$60m

As the first batch of new \$100 bills hit the streets of Moscow yesterday, senior US officials sought to convince the Russian people that, come what may, they can always trust Uncle Sam.



Ten more Japanese banks set for losses over housing loans

Another 10 big Japanese banks yesterday revealed they would report losses for the year to the end of March, confirming an unprecedented mauling of financial institutions that were once regarded as being among the world's strongest.

Franco-German entente: Participants take a break at Laval, west of Paris, where France and Germany were reported to have agreed on the need for a new European exchange rate system preventing 'competitive devaluations' by countries outside the future economic and monetary union.

Table with multiple columns containing market indices (New York, London, FTSE 100, etc.), US Lincitime Rates, Other Rates, and North Sea Oil prices.

Table of Contents listing various sections like European News, Letters, Observer, etc.

Advertisement for CINVen, a sauna manufacturer, featuring a person in a sauna and the slogan 'A SAUNA MANUFACTURER WHO WANTS TO WORK UNDER HIS OWN STEAM? NO SWEAT. CINVen / INDEPENDENT / VISION'.



## NEWS: EUROPE

## Paris-Bonn accord on Emu 'ins' and 'outs'

Consensus reached on how to deal with exchange rate relationship between those 'in' and 'outside' Emu

By David Buchanan in Paris

France and Germany agreed last night on the need for a new European exchange rate system which would prevent "competitive devaluations" by countries remaining outside the future economic and monetary union (Emu), Mr Jean Arthuis, the French finance minister claimed.

He was speaking at the conclusion of the twice-yearly Franco-German meeting of finance ministers and central bankers. The meeting was mainly designed as a bilateral preparation for next month's EU finance ministers meeting in Verona.

But the two sides also discussed the economic slowdown in both countries which threatens the reduction of public deficits, required in particular by France to qualify for Emu in 1997.

Despite the slowdown, Mr Hans Tietmeyer, president of the Bundesbank, claimed that "globally" the present level of German interest rates was sufficiently low to "allow growth" in the German economy.

Mr Jean-Claude Trichet, the Bank of France governor, also claimed French rates were now "favourable to growth". Earlier this week, the French government revised its 1995 forecast downwards to 1.3 per cent,

with an upturn in the autumn to allow 2.5-3 per cent expansion next year.

France has been trying to persuade Germany to take the problem of monetary stability between those inside the future Emu and countries remaining outside at least as seriously as fiscal discipline within the system, originally raised by Mr Theo Waigel, the German finance minister.

France has supported Mr Waigel's idea for a "stability pact" among countries participating in Emu, though it remains reserved on the German finance minister's suggestions that Emu participants should

aim for a deficit of no more than 1 per cent of national output and that fines might be levied on Emu participants that led their deficit go beyond 3 per cent.

The French government, however, has been arguing that even more urgent are new disciplines on countries in the run-up to Emu and on the exchange rate relationship between the "ins" and "outs", once a partial Emu is established. President Chirac said earlier this week that France would shortly make proposals to its EU partners for sanctions against countries indulging in "competitive devaluations".

These proposals, to be tabled before the Verona meeting, would require that such countries take payments of EU structural aid in their own national currency, rather than Ecus, thereby denying them any windfall exchange gain from their currency's slippage.

Over the longer term, Paris hopes to get EU agreement on "a European Monetary System Mark II", keeping currencies outside Emu within a certain margin of the Euro single currency. French officials say there is "an intellectual consensus", if not outright support, for such a system from every country except the UK.

## Kinkel warns European Union partners that conference goals should not be too ambitious

## Bonn proposes lean agenda for IGC

By Peter Norman in Bonn

Germany yesterday called for a lean agenda at the European Union's intergovernmental conference that starts in Turin this week and expressed disappointment at Britain's refusal to accept greater integration in Europe.

Outlining a 21-point list of specific reform proposals, Mr Klaus Kinkel, the foreign minister, said Bonn wanted the IGC to concentrate on the key issues of making the EU more capable of common action in foreign policy and internal security. Institutional reforms should make it more able to absorb new members while action should be taken to overcome Euro-fatigue among voters by making the EU more open and transparent.

Mr Kinkel outlined that the IGC was a "step, not a final stage" in the process of European integration. It was important not to set goals that were too low. But equally, unrealistically ambitious objectives could jeopardise other parts of the EU's agenda for the end of the century: such as economic and monetary union, the start of negotiations to admit new members, and reform of the EU's finances and common

agricultural policy. Germany outlined its programme for a more efficient and coherent common foreign and security policy at the end of February after reaching agreement with France on a joint approach to the IGC in this area.

Yesterday, Mr Kinkel said Bonn also wanted concrete progress on internal security issues to be made. Problems as internationally organised crime and drug trafficking. He spelled out specific goals for the first time, including:

- strengthened co-operation among police forces with the long-term goal of a European police authority;
- harmonisation of standards in criminal and civil law;
- EU-wide approaches on visa policies, the right of asylum, immigration and co-operation among customs authorities;
- including among EU duties, the combating of racism and fraud at the expense of the EU budget.

To combat Euro-fatigue, Mr Kinkel said Germany wanted to breathe new life into such concepts as subsidiarity, democracy and transparency. In particular, Bonn wants the principle of subsidiarity

spelled out in a protocol to the EU treaty so that policy-makers can easily check whether there is any "value added" to implementing policies at a European level rather than closer to the citizen. To increase transparency in the EU, Germany wants improved access to documents for citizens and organisations, as well as more rights for the European parliament. Citizens' rights should also be strengthened through improved safeguards for basic rights at EU level and the development of EU citizenship in the treaty.

Among institutional reforms, Germany is seeking more qualified majority voting in the European Council; the introduction of a "double majority", whereby majority decisions in the Council must be backed by adequate popular support; a restriction in the number of commissioners; and a limit on the size of the European parliament to about 700 members.

A key German wish is the introduction of the idea of "flexible integration" in EU affairs. This means any country that cannot go along with progress supported by EU members in general should not be able to block progress.



US pop idol Madonna (centre front) plays Eva Peron during filming in Budapest yesterday of a scene from the Alan Parker film, Evita.

## Nation's piggy bank holds up Russian system

For a financial institution with a perfectly dull name, Russia's State Savings Bank, Sberbank, boasts a tumultuous history – and one that, in its current chapter, places this national piggy bank at the heart of the country's financial system.

Founded by Tsar Nicholas I in 1841, Sberbank has since been nationalised and semi-nationalised and endured several revolutions, financial crises and banking crashes.

Now, as the preferred bank of the average Boris and Natasha, Russia's biggest bank has attracted about three-quarters of all household savings and has been using that money to keep other banks afloat and the government solvent.

By buying government bonds, Sberbank has, in effect, lent the Russian government as much as the International Monetary Fund over the past year.

But questions are now being raised about the bank's accountability. Should it, as in communist times, act as a mere extension of the government's monetary policy? Or should it place its depositors' and shareholders' interests above those of the state?

The concerns have come to the fore because of the increasingly important role Sberbank is playing in the banking system since a crisis of confidence temporarily paralysed the inter-bank lending market last autumn.

Worries about the solvency of other banks led to a flood of private money pouring out of Russia's volatile non-commercial banks into Sberbank's seemingly safer vaults.

With 40,000 branches and 200,000 employees looking after 70 per cent of all household deposits, Sberbank is Russia's biggest bank by a large margin. It is estimated it sucked in between 80 and 90 per cent of all household deposits in the final three months of 1995.

Since then, bankers say Sberbank has been prodded by the government into keeping the banking industry afloat by lending this money to several cash-strapped institutions – some of which are its own shareholders. But this inevitably raises doubts about the quality of its loan portfolio and the possibility of potentially huge losses should banks fail.

One banking industry source says: "There are a couple of big well known banks with liquidity problems that are receiving long-term loans from Sberbank. Either the central bank is telling them to do this or Sberbank must be making a lot of money."

The relationship between the central bank and Sberbank is sensitive and complex. The central bank retains a 51 per cent stake in Sberbank and has considerable sway over its activities.

But it is believed its grip, which slackened after 49 per

## Budapest welcomes Evita and its star

By Virginia Marsh in Budapest

Palm trees have been planted outside the US embassy in Budapest's Szabadsag Square as the Hungarian capital is transformed into 1950s Buenos Aires for a film shoot.

Budapest was yesterday bracing itself for weeks of traffic jams as streets were blocked and as pop and film fans tried to catch a glimpse of the American singer and actress Madonna, who is starring in the big screen version of *Evita*, the award-winning musical based on the life of Eva Peron, wife of Juan Peron, the former populist president of Argentina.

As the cameras started rolling, the local film industry and the city authorities were beginning to add up the extra cash and jobs *Evita* will bring to Hungary. The film, one of an increasing number of foreign productions being filmed locally, also stars Spain's Antonio Banderas and Britain's Jonathan Pryce and is directed by Alan Parker.

The city of Budapest will collect hefty rental fees for the use of its pavements – it is charging P600 (£2.75) plus 25 per cent value-added tax per square metre a day.

About 23 locations in and around Budapest will be filmed over the next four weeks, featuring some of the capital's largest squares and best known sites. The shooting also promises employment for about 3,000 local people, many of whom will appear as extras for street scenes.

"It's less expensive to film here than in many other countries, but Budapest was also chosen as it is less modern than western cities. It has several buildings and streets which can be transformed into Buenos Aires of the 1950s with only minor changes," says Mr Laszlo Helle, president of Transatlantic Media Associates, the American-Hungarian joint venture which is overseeing location shooting in Budapest.

The production team declined to specify how much of the film's total budget, estimated at around \$60m, will be spent in Hungary.

"I can only tell you it's a lot given that nearly half of the [filming] schedule is here. We'll be spending fast and furiously in a short time. It will be a huge boost to the local economy," says Mr Andrew Vajna, the producer.

As well as employing extras, the *Evita* team has rented around 130 hotel rooms, most of them in downtown luxury hotels, and hired local studios and a local film crew of 150 – a welcome boost to the country's beleaguered film industry, hit hard by the end of Communist-era subsidies.

In addition, shops and other companies will be compensated for lost business on filming days.

John Thornhill

## Irish may seek to join Nato peace partnership

By John Murray Brown in Dublin

Ireland yesterday opened a potentially divisive debate about its policy of military neutrality on the eve of the intergovernmental conference on the future of the European Union.

Mr Dick Spring, the Irish foreign minister, gave the broadest of hints yesterday that his country would seek to join Nato's partnership for peace, a policy devised to bring the former Communist countries of eastern and central Europe into the western European security umbrella.

Unveiling Ireland's first ever white paper on foreign policy, Mr Spring said he was not contemplating full membership of either Nato or the Western European Union defence organisation, the defence arm of the EU. Nor was Ireland proposing to assume the mutual defence obligations of the two blocs.

However, he indicated for the first time that Ireland intended to discuss with the WEU the possibility of taking part in humanitarian and rescue tasks, and peacekeeping, on a case-by-case basis.

He also said that the govern-



Dick Spring: discussions on humanitarian and rescue tasks

ment would consider, along with other Union neutrals, a new institutional arrangement with the WEU without entering into mutual defence pacts.

With the public still sceptical of any moves to dilute Ireland's neutrality, Fianna Fail, the main opposition party and Ireland's largest party, has said it will oppose any move on the partnership for peace, which it believes

will place Irish forces under a Nato command.

There will be a debate on the white paper in the Dail, the Irish parliament, before Mr Spring and Mr John Bruton, the prime minister, leave for Turin tomorrow for Friday's launch of the IGC.

With the accession of Austria, Sweden and Finland, Ireland is no longer the only neutral in the EU. But the government believes the Irish must "be a constructive participant" in any debate within the IGC on a common defence policy, and "when the time came, Ireland would be willing to enter into negotiations on a common defence policy."

Ireland's immediate worry is that the security debate could persuade the EU to bring forward the debate on enlargement to take in the countries of eastern and central Europe most directly affected by Russia's proximity.

As a small peripheral economy, and the largest per capita net recipient of EU funds, Ireland is particularly concerned about enlargement. The white paper says it is imperative that enlargement "should not undermine the application of cohesion policies to existing member states".

## Romanian curbs hit forex trading

By Virginia Marsh

Romania's interbank foreign exchange market saw little activity yesterday, the second day of trading after the central bank limited market-making to just four, mainly state-owned, banks.

"The market is not working at all," said a forex dealer at one of 18 local and foreign banks now restricted to buying and selling currency for non-banking customers only.

Of the four market-makers – three powerful state banks and one private sector bank – two had quoted only bid prices to buy foreign exchange and had not posted sell prices. Telephones at the other two were engaged or not answered.

Other brokers said they had

## EUROPEAN NEWS DIGEST

## Kremlin in tax crackdown

The cash-strapped Russian government has stepped up its efforts to bring taxation into the federal treasury and curtail the excesses of free-spending ministries. A tough decree published today suggests the Kremlin is hoping to tighten financial discipline within the government, allowing President Boris Yeltsin's generous pre-election promises to be funded without prompting a jump in inflation.

One provision in the decree seeks to prevent a rerun of last year's budgetary fiasco when the Ministry of Defence and the Ministry of the Interior unilaterally raised wages for their soldiers, leading to Rbs6,000bn (\$1bn) in unforeseen expenditure. The new decree bans ministries from unauthorised wage increases. Another part of the new law is aimed at bringing Russia's often recalcitrant regional administrations in line. The decree forbids regional governments to introduce their own tax breaks and outlines a series of tough sanctions for regional administrations which do not promptly forward local collected taxes to Moscow.

Christina Freeland, Moscow

## Shell accused of pollution

Greenpeace, the environmental pressure group, has accused Shell, the Anglo-Dutch oil group, of polluting an underground water reservoir that supplies drinking water to Diyarbakir in southeast Turkey. Greenpeace claims the company has pumped more than 457m barrels of polluted water into the Midyat aquifer that provides about a tenth of the city's water. The water, which contains traces of oil and salts, was produced along with the oil from Shell fields in the region.

Shell, which last year sold its Turkish operation, said the aquifer was not used for drinking water when it decided in 1977 to use it to dispose of the water. A programme to phase out the practice is under way; a quarter of the water produced last year was reinjected into an oil reservoir. The company says the concentrations of oil and salts are too low to threaten human health.

Robert Corzine, London

## Portuguese TV chiefs resign

The president and top management of Portugal's state television company, RTP, resigned yesterday after a conflict with editors and journalists over attempts to cut costs at the loss-making group. The resignations came as a second blow to the Socialist government after Mr Daniel Bessa quit as economy minister last Friday in a row over Sunday shopping hours. Ms Manuela Morgado, RTP president, was one of a number of heads of big public-sector companies appointed by the Socialists after winning a general election last October.

Ms Morgado's attempts to stem an annual operating loss of more than E220bn (\$31m) led to the resignation last week of the head of news and programming and other production chiefs. They accused Ms Morgado and her management team of restricting their independence by imposing stricter budgetary and administrative controls.

Peter Wise, Lisbon

## Former Socialist chief sentenced

Rightwing politicians in Italy yesterday condemned as political victimisation the three-year prison sentence imposed on 80-year-old Giacomo Mancini, the one-time Socialist leader and long-time party potentate in Calabria, for obtaining votes from the 'ndrangheta, the Calabrian Mafia, in return for favours. Organised crime has long been suspected of drumming up votes in the south in return for political protection. But this is the first such case accepted in court. Crucial evidence came from former Mafia members collaborating under witness protection programmes.

The judges chose to ignore character testimony from such witnesses as former president Francesco Cossiga. Mr Cossiga testified that as a former interior minister he had never had any information suggesting Mr Mancini, a key figure in the centre left of the 1960s, of being linked to the Mafia. It is unclear whether he will have to go to jail. But the case is likely to add a new element to the sensitive issue of justice in the election campaign.

Robert Graham, Rome

## IGC? What IGC?

Danes are the most aware in Europe about the coming intergovernmental Maastricht treaty review conference (IGC), but Belgians, who host many of the EU's institutions, are the most ignorant, according to a poll published by the European Commission yesterday.

The poll showed that just 15 per cent of the EU's population had heard about the IGC, which EU leaders will launch in Turin on Friday. The lack of knowledge underlines the challenge facing political leaders as they struggle to make negotiations on arcane issues such as majority voting relevant and comprehensible to ordinary citizens. Denmark, often ranked as one of the most Euro-sceptic of the 15 EU member states, easily outscored other countries in knowledge about the IGC. Some 37 per cent of citizens were aware of the conference, while only 9 per cent were aware in Belgium, and just below 10 per cent in the UK.

Lionel Barber, Brussels

## ECONOMIC WATCH

## French spending steady

France

Household consumption of manufactured goods (annual change)

8%

4%

2%

0%

-2%

1994

95

96

Source: Datastream

French consumer spending was unchanged last month, after a revised 5.0 per cent rise in January compared with December. France's national statistics institute, Insee, said yesterday.

The February figures are encouraging and suggest the French economy will avoid a recession, economists said. "The numbers were good overall because after a 5.0 per cent increase in January, we could have seen a decline in February," Mr Philippe Brossard, an economist at ABN Amro, said. "This is a guarantee against recession."

Mr Brossard said the stability of spending at January's high levels ensured the economy would grow by at least 0.3 per cent in the first quarter.

French retail sales fell a provisional 4.7 per cent in December, following a rise of 4.4 per cent in November, according to figures from Insee. December sales were flat compared with the average of the previous three months.

Reuters, Paris

## Spain current account surplus up

Spain posted a Pta117.1bn (\$307m) current account surplus in January, compared to a surplus of Pta100bn in the same month a year earlier, using a new accounting method adopted by the Bank of Spain yesterday.

The slight improvement in the surplus in January reflected an increase in the surplus in services, which offset the widening trade deficit and a lower surplus in net transfers, principally from the EU. In 1995, Spain swung to a Pta157.9bn current account surplus from a deficit of Pta912.5bn in 1994 under the new method. Under the previous method, Spain recorded a Pta584.5bn surplus in 1995, compared to a deficit of Pta585.8bn in 1994.

AFX, Madrid

● The Czech Republic recorded a deficit on its merchandise balance of trade of Kc15,288bn (\$51m) in January and February combined. Exports in January and February amounted to Kc56,876bn, up 19.2 per cent from January and February 1995. Imports amounted to Kc112,162bn, up 23.5 per cent from the previous year.



NEWS: EUROPE

New Spanish PM may take three weeks to form government

Aznar in search of support

By David White in Madrid

Spain's parliament meets today for its first session following the centre-right's narrow election victory this month, but is likely to have to wait three weeks or more before voting a new government into office.

However, Mr Aznar said he would discuss "neither numbers nor dates" at this stage. He expected to hold a second meeting "in the near future" with Mr Jordi Pujol, the Catalan leader, whose support is essential for forming a stable government.

tem before the investiture vote. "I am in favour of taking the regional financing question directly by the horns," he told a press conference. "But I want to seek as much consensus as possible between the different regional governments."

Ukraine unmoved by 'union'

By Matthew Kaminski in Kiev

Ukraine, which would be critical to any reconstituted Russian sphere of influence, is seeking to distance itself from the deeper integration agreed at the weekend by Russia and Belarus.

International Peace in Washington. "But it just shows some countries will depend on Russia and some will break with it."

and industrialised eastern provinces. "The agreement is a timely present for the leftists in Ukraine, [who] are not able to restore communism or recreate an imperial Russia without outside help."

Most doubt that Mr Yeltsin will fulfil the engagement.

Yugoslavia-IMF talks clouded by debt problem

By Paul Wood in Belgrade and Bruce Clark in London

The rump Yugoslav state, consisting of Serbia and Montenegro, will take a fresh step towards rehabilitation today by holding exploratory talks in Paris with the International Monetary Fund and the World Bank.

settlement between ex-Yugoslav republics, cemented by a meeting of the region's central bank governors. The IMF has issued its own proposals for dividing up Yugoslavia's financial legacy, known as the IMF key.



Italian soldiers remove razor wire from a bridge separating Sarajevo from its formerly Serb-held suburb Grbavica yesterday

German building strike looms over pay for foreign workers

By Wolfgang Münchau in Frankfurt

The threat of the first nationwide strike in Germany's building industry since the second world war appeared to grow yesterday after the failure of the first round of arbitration between unions and employers.

out of the market is not xenophobic but merely a device to ensure that the same work carries the same wage. Construction companies say a high minimum wage would render the industry uncompetitive, and many companies would face closure.

Since this would merely cement the disadvantage of German building workers. The German government has introduced a law preventing foreign-registered companies undercutting German wage levels in the building industry.

serbia resign

serbia's state resign after a conflict with its neighbours as a result of a second blow to its economy.

headed by Mr Dragoslav Avramovic, the national bank governor and former World Bank official who in 1994 succeeded in taming Serbia's hyper-inflation.

Serbia's farmers have been squeezed by a price regime

Serbia's farmers have been squeezed by a price regime which last year paid them less than the cost of growing their wheat. One western ambassador said the rural economy was threatened with a disaster.

YD3.6 per DM at the start of the month to YD3.4 yesterday

YD3.6 per DM at the start of the month to YD3.4 yesterday, against the official rate of YD3.3.

sentenced

sentenced as a result of a court case. The case is the first of its kind in the region.

ready

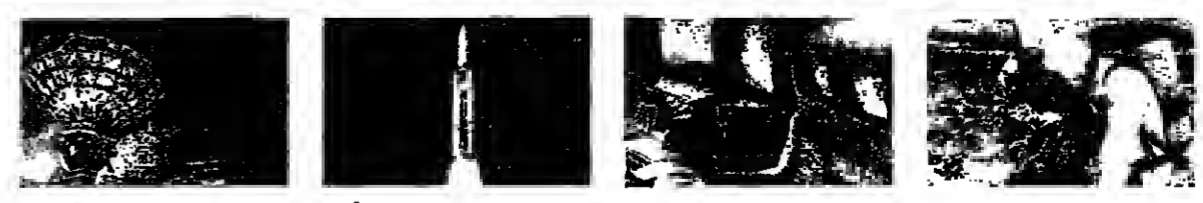
ready to spend more on infrastructure. The EU's population is still growing and the need for infrastructure is high.

surplus up

surplus up in the same period. The government has reported a significant increase in its surplus.



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## Caribbean ties with Havana increased

By Canute James in Kingston

Cuba's neighbours are increasing their trade ties with Havana in spite of US moves to tighten the economic embargo against the island.

In search of new markets, a group of Caribbean manufacturers are visiting Cuba this week on a trip organised by the Caribbean Export Development Agency.

The visit follows the denunciation by several Caribbean countries of US moves to tighten its economic embargo on Cuba by punishing third countries, companies and individuals doing business with the island.

The mission will comprise about 25 companies which manufacture processed food, electronic equipment, construction products, packaging material, footwear and chemicals. The manufacturers will meet Cuban trade officials and hold a trade fair in Havana.

"This mission is of historic significance, given the commercial importance of Cuba to the wider Caribbean," the agency said. "It augurs well for the ongoing process of Caribbean integration."

Cuba's neighbours maintain that the US economic embargo is redundant and that isolation will not initiate change in Cuba. Several have been trading with and investing in Cuba and have opened markets there for a range of products including soaps, petroleum products, construction material and processed food and drink.

Caribbean businessmen are unperturbed by the threat of punishment under the Helms-Burton Bill, the legislation under which the US says it will punish those with economic ties with Cuba. "Despite its economic problems, Cuba is a potentially lucrative market for Caribbean companies, and since the US companies and government do not want it, we will make use of it," said one member of the mission.

Several Caribbean governments have dismissed the Helms-Burton bill. "It has elements of extra-territorial legislation that are beyond the ability of the US government to implement," said Mr Phillip Goddard, Barbados' minister of international trade and business. Barbados and Cuba signed an investment treaty last month.

# Cuba prepares to fire torpedoes at UK smokers

The island's tobacco industry, revitalised by foreign financing, is hoping to rekindle a century-old fashion for pointed cigars. Pascal Fletcher translates the smoke signals

British connoisseurs of Havana cigars with a penchant for nostalgia should take note: Cuba's world-famous cigar industry, emerging from a production slump with the help of foreign credits, is hoping to rekindle a century-old smoking fashion by launching a new *figurado* or Havana cigar pointed at both ends.

Britain has been chosen as the market in which to launch the small cigar, to be called *cubano*, a word used by Cuba's former Taino Indian inhabitants to denote a local species of quick-burning bush they used as torches or lighters. The launch, in four *violetas* or sizes, is expected in early November.

Cuban cigars, shaped as double-pointed torpedoes were the fashion last century but fell from favour during the 1930s, giving way to straight-sided Havanas. Habanos, Cuba's state cigar company, hails the cigar launch as a sign of recovery in the tobacco sector after a slump caused by bad weather and shortages of inputs.

Badly hit by lack of fuel, fertilisers and other inputs after

the collapse of the former Soviet Union, the island's main trading partner, Cuba's tobacco production fell in 1993 to 300,000 *quintales* (13,500 tonnes), a third of previous levels. Cuban tobacco farmers even had problems obtaining fine string and muslin with which to tie and cover plants.

Cuban officials estimate the production slump may have cost the island more than \$500m in lost cigar and tobacco growing wages or plantations.

Smaller credits have come from Seita of France which, like Tabacalera, buys both finished cigars and leaf tobacco from Cuba, and other foreign importers, such as London-based Hunters & Frankau, which since 1990 has been the exclusive distributor of Cuban

cigars in Britain.

Mr Simon Chase, Hunters & Frankau's marketing director, said he was "chuffed" with Cuba's choice of Britain as the venue to launch the new cigar. He saw evidence of a better quality crop when he visited western Pinar del Rio province, the main tobacco growing region, earlier this year.

"What I saw was the most encouraging signs I've seen for ages. Better leaves, better plantations, better *capado* [the muslin screens that cover some of the plants]."

Other recent reforms include the distribution of parcels of land to peasant families to grow tobacco and hard currency incentives to tobacco workers.

Despite some disruption from heavy rains in late December and early January, Cuban officials predicted this year's tobacco crop, now in the final stages of harvesting, would increase to some 750,000 *quintales* (34,500 tonnes) from 650,000 *quintales* in 1995. This

should translate into some 65m cigars for export, both hand-rolled and machine-made, compared with 60m last year, although exports then were also boosted by stocks.

Foreign importers said that despite the improved tobacco harvest since 1994, Cuba had been struggling to supply existing export brands. One problem had been a shortage of good-quality *capas*, the leaves that produce the outer wrappers for cigars, which require especially careful cultivation.

"We are all optimistic that there will be more wrappers this year," said Mr Adriano Martinez of Habanos.

Habanos officials calculate Cuba's current cigar exports, which earned the island more than \$100m in 1995, supply only just over half the potential world market for Havanas, estimated at around 115m units. A US trade embargo on Cuba bars Cuban cigar sales to the US market, where Honduras and the Dominican Republic are the main suppliers.

Mr Martinez did not believe recent US legislation that

tightens the US economic embargo against Cuba by targeting foreign investors would affect the continuing recovery of Cuba's tobacco sector and cigar exports. Tabacalera's representative in Cuba, Mr Javier Plantada, declined to comment.

Although big Havana cigars, such as the well known Churchill, have become increasingly popular around the world, Mr Chase believes the smaller *cubanos*, will be welcomed by cigar aficionados. "It's the recreation of an old tradition. It's a novelty, it will widen the choice," he said.

Mr Martinez said Habanos was training a group of expert cigar rollers in the art of hand-rolling the new *figurados* or shaped cigars. "You need to form the two ends correctly, to get the right combustion," Mr Chase said.

He conceded that the *figurado* Havana might take a while to make its comeback, just as it had taken several decades for it to fade from fashion in favour of the straight-sided cigar. "We won't launch it like a soap wonder," he said.



Sorting cigars at a Havana factory: officials are forecasting an increased harvest this year

## US considers sanctions in China nuclear row

By Nancy Dunne in Washington

US administration officials are reviewing the imposition of trade sanctions against China for its alleged transfer of nuclear technology and failure to abide by a bilateral intellectual property rights agreement.

Officials may meet as early as this week to consider a response to China's reported transfer of nuclear technology and missiles to Pakistan and Iran.

China's aggressive actions surrounding the Taiwanese elections have also brought new pressure to bear on the administration.

The White House will also be asked to authorise Ms Charlene Barshefsky, the deputy trade representative, to threaten immediate sanctions against China if she is unable to reach agreement on intellectual property rights during a trip to Beijing early next month. She will be accompanied by top lobbyists from the intellectual property industries

- film, records and software - who have advocated \$2bn of retaliatory action against Chinese imports.

The administration's actions are being monitored on Capitol Hill where business lobbyists believe they are facing their most difficult battle in getting Congress' yearly approval for continuation of China's Most Favoured Nation trading status. MFN allows Chinese goods to enter the US with the same low tariffs granted to most other trading nations.

The congressional working group on China, which has tried to link MFN renewal to Chinese good behaviour in the past, plans to consider new proposals to partially withhold MFN tariff treatment.

The immediate difficulty for the administration is the proliferation question. If the State Department determines that China "willfully aided or abetted" Pakistan to acquire nuclear weapons or material, China could be denied financing credits by the US Export-Import Bank. If it is found that

Beijing transferred missiles to Iran, the US could instruct officials to oppose Chinese loans from the multilateral development banks.

Election year pressures, however, could force a tough response. President Bill Clinton already faces criticism that he has caved in to the business lobby and lost credibility with Beijing.

Eximbank's China window was closed for 30 days last month on a request from the State Department. The suspension expired last weekend, and Eximbank on Monday reopened to China, although no new loans were to be considered by its board this week.

Eximbank is caught in the congressional crossfire over a loan application by Caterpillar for financing the controversial Three Gorges Dam project. The Illinois delegation in Congress has urged approval of the loans. Congressmen of both parties yesterday signed a letter urging Mr Martin Komarch, acting Eximbank president, to refuse lending for the dam.

## OECD pushes investment rules

By Guy de Jonquieres

The head of the Organisation for Economic Co-operation and Development forecast yesterday that many non-member governments would voluntarily subscribe to an agreement on international investment rules being negotiated by the OECD.

Mr Jean-Claude Paye, the organisation's secretary-general, said the planned accord would provide a "certificate of respectability and credibility" for countries seeking to attract foreign direct investment.

"I would guess - I would bet - that many non-OECD coun-

tries will be keen on signing such an agreement," he said.

"The number of countries wanting this kind of certificate is very great. They are competing for foreign direct investment."

Mr Paye, who steps down from his job in May, said that though OECD non-members could not participate formally in negotiating the agreement, member governments might agree to involve them directly in the final stages of drafting it.

He also suggested that it was unlikely that the planned OECD accord, which would set binding rules for the treatment of foreign investment, would

be followed soon by a similar agreement in the World Trade Organisation.

"It is a bit early, probably for the WTO, which is a brand new organisation, to enter into the actual negotiation of something of that degree of complexity and ambition," he said.

The proposed OECD agreement, an outline of which is expected to be presented to the WTO's ministerial meeting in Singapore in December, has aroused controversy and even hostility in many developing countries.

Mr Renato Ruggiero, WTO director-general, has warned that they would strongly resist

any attempt by industrialised governments to impose the OECD agreement as a model for the WTO.

Sir Leon Brittan, Europe's trade commissioner, has suggested that the OECD negotiations should be transferred to the WTO before they are concluded. But his proposal is opposed by the US.

Mr Paye said that, in any case, some developing countries, such as India, did not want the WTO to start discussing investment rules yet. "So should we wait for everybody in the WTO to be prepared to enter into negotiation before doing anything? No," he said.

Paye and the poor, Page 5

## Air cargo deal still eludes Japan and US

By Our Foreign Staff

Japan and the US yesterday ended the second day of their air cargo talks without an agreement and will continue negotiations today.

This fifth round of talks is aimed at setting up a new framework for air cargo transport between the two countries following a prolonged dispute over rights to third destinations. The two sides are seeking to bridge the gap over how to ensure fair access to the growing trans-Pacific air cargo market.

"We may need some more time before we reach an agreement," a Japanese negotiator said yesterday. "I think the gap between us may be narrowing from the last round [at the beginning of March]," he said.

In the latest round Japan and the US discussed the issue of Japan's Nippon Cargo Airlines and United Parcel Service of the US.

Both countries are eager to ease restrictions on cargo flights, but there are still differences on how this should be implemented.

The US is calling for an open skies policy with unrestricted access for US cargo carriers to the market covering the US and the Asia-Pacific region, including Japan. However, US airlines are seeking differing outcomes.

United Airlines wants to increase the flights it could make from Japan to third countries. Other US airlines such as American Airlines are concentrating on increasing US-Japan traffic.

The Japanese side, however, is concerned that open skies would give US carriers an unfair advantage over Japanese companies, which have been kept from developing their trans-Pacific business by uneven restrictions on their US cargo flights.

Under the present agreement, Japan's two cargo airlines, Japan Air Lines and Nippon Cargo Airlines, can fly only a limited number of times per week to certain US cities.

The two big US cargo airlines, on the other hand, have unrestricted access to Japan's main airports in Tokyo, Osaka and Okinawa, and from there to other destinations in Asia and the Pacific.

France and the US yesterday decided to reverse their unilateral cuts last week in the summer flight programmes of each other's carriers, and to negotiate towards a bilateral air transport agreement, writes David Buchanan in Paris.

The end to the brief tit-for-tat row came in Paris talks between Mrs Anne-Marie Idrac, the junior French transport minister, and her US counterpart, Mr Charles Hummert. A US decision to deny Air France half of its reserved seats for an increase in summer flights to the US this summer prompted retaliation by Paris, which reduced virtually all the 12 per cent rise in summer flights requested by six main US carriers.

France and the US have not had a bilateral air accord since 1992. French officials estimated that a new agreement may take several months.

## Motor industry set to contract

WORLD TRADE NEWS DIGEST

The world motor industry is set for further rationalisation, cuts and mergers, according to Mr Alex Trotman, chairman of Ford. Overcapacity and weak demand in established markets, meant contraction was inevitable, especially because customers had grown more fickle and demanding, he said.

The current structure of about 50 car brands and 300 main models in Europe was unsustainable in the long term. "Some of the nameplates are going to disappear in the next 10 years or so," he said.

Changes within the car parts industry, where the number of leading suppliers had fallen to no more than six for some key components, pointed the way for the motor industry as a whole, he said. Change was being hampered by differing national regulatory standards, he added. "Unique local requirements add cost, time and complexity to operating around the world... They're certainly a major roadblock to free trade in a business environment that demands global competition."

Ford was still advancing with its ambitious Ford 2000 restructuring programme, he said.

The company expected to cut the number of basic platforms on which its cars are built from 24 to 16, while the different engine and transmission combinations would fall by up to half by 2002.

Haily Simorjian, London

France and the US yesterday agreed to allow Air France to make 500 extra flights to four US cities this summer in exchange for France dropping a threatened cut in US airlines' landing rights. Mrs Anne-Marie Idrac, French junior transport minister, said the two countries would hold further talks at a later date to negotiate a new bilateral air transport pact. Since 1992, when the last US-French bilateral air accord lapsed, flights between the two countries need the approval of both governments.

Foreign Staff, London

## France and US land flight deal

## Ford joins up with Sismaire

Ford is launching a joint venture with Sismaire, a components manufacturer with plants in Buenos Aires and Tierra del Fuego, to manufacture instrument panels, air conditioning equipment, heaters and other components for supply to Ford's and other carmakers' assembly facilities in Argentina and Brazil. Ford is to have a majority stake in the venture. Ford is to supply manufacturing technology and operating systems; Sismaire the production facilities and local market knowledge. Full production is due to start next year.

John Griffiths, London

## US think-tank condemns Nafta

By Nancy Dunne

The North American Free Trade Agreement has cost jobs in the US, Canada and Mexico and adversely affected the environment on the US-Mexican border, according to a new report entitled "Nafta's First Two Years - the Myths and the Realities."

The report, by the Institute for Policy Studies, a liberal Washington think-tank, condemns the Nafta model as one which "glorified" the market place and "viewed human beings and civil society as little more than customers in a continental shopping mall".

It is blamed for having brought on the Mexico peso crisis of December 1994. Debt service payments had risen from \$1.1bn annually in 1982 and \$2.8bn before the crisis to an estimated \$7.8bn now, the report said. The government had been forced to keep its interest rates high to attract foreign money and reduce capital flight.

"But the high rates have led to economic stagnation and reduced investment in production for the domestic market."

The report takes aim at the promise by Nafta supporters that the trade pact would generate new jobs. Instead, export-

generated profits had financed mergers and acquisitions, which last year reached a record \$600bn. About one third of all US redundancies last year had been tied directly to mergers.

The labour side pact to Nafta, negotiated by the Clinton administration, had done little to improve workers' rights. Citing the example of a company in Decatur, Illinois, the report said working conditions had worsened and in 1993 the company had locked out its workers and dropped their health care coverage.

Strikes had brought no improvement and last Decem-

ber workers returned to the production line, accepting a contract that included mandatory 12-hour shifts.

The report also criticises deteriorating environmental conditions. An increase in industrial activity along the US-Mexican border had led to a rise in hazardous waste and no improvement had been recorded in the spread of infectious diseases such as hepatitis-A, cholera, and typhoid.

Nafta's First Two Years - The Myths and the Realities. The Institute for Policy Studies, 1601 Connecticut Ave, NW, Washington DC 20008. Phone: 202 234-9392. Fax: 202 857 7915.



If the rainforests are being destroyed at the rate of thousands of trees a minute, how can planting just a handful of seedlings make a difference?

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This is particularly valuable in the Impenetrable Forest, Uganda, where indigenous hardwoods take two hundred years to mature. The *Markhamia lutea* trees planted by WWF and local villages can be harvested within five or six years of planting.

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WWF sponsors students from developing countries on an agroforestry course at UPAZ University in Costa Rica, where WWF provides technical advice on growing vegetable and grain crops.

Unless help is given, soil is exhausted very quickly by "slash and burn" farming methods.

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In La Planada, Colombia, our experimental farm demonstrates how these techniques can be used to grow a family's food on a small four hectare plot. (Instead of clearing the usual ten hectares of forest.)

WWF fieldworkers are now involved in over 100 tropical forest projects in 45 countries around the world.

The idea behind all of this work is that the use of natural resources should be sustainable.

WWF is calling for the rate of deforestation in the tropics to be halved by 1995, and for there to be no net deforestation by the end of the century.

Write to the Membership Officer at the address below to find out how you can help us ensure that this generation does not continue to steal nature's capital from the next. It could be with a donation, or, appropriately enough, a legacy.



WWF World Wide Fund For Nature (formerly World Wildlife Fund)

International Secretariat, 1196 Gland, Switzerland.

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Bankers over glo clearing

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# Bankers clash over global clearing plan

By Philip Gawth

A plan by leading international banks to set up a global clearing bank to handle the daily flow of \$1,200bn across the world's foreign exchanges has run into opposition from one of the main organisations providing foreign exchange netting services.

Netting involves settling a group of mutual obligations between parties with a single net payment rather than paying each amount in full. FXNET, the world's leading provider of bilateral netting for foreign exchange, has expressed concern that there may be a conflict between netting systems which reduce payments, and the banks' proposal which appears to succeed best when the payments volume is greater.

The Group of 20 plan is to produce an instantaneous settlement system in which a payment by one bank is immediately offset against a matching payment by another bank. This approach reduces settlement risk by eliminating the timing difference in the processing of linked foreign exchange payments. With netting, the emphasis is on reducing risk by lowering the number and amount of payments crossing the exchanges.

Foreign exchange settlement risk has been a concern of bankers ever since the collapse of the private German bank J.D. Herstatt in 1974. The bank was closed by German authorities while in the middle of more than \$620m of foreign exchange trades. One leg of those trades had already been paid to Herstatt in Germany, but in New York - which is six hours behind - the other leg had not yet been paid to the bank's counterparties in the US.

# Execution sparks riots as Bahrain tensions grow

By David Gardner in Manama, Bahrain

The Gulf state of Bahrain yesterday carried out its first execution since Shi'a Muslim-led agitation began 16 months ago in a push to win a share of power from the country's Sunni Muslim rulers.

Neighbouring Saudi Arabia, meanwhile, injected more money into the small island entreat to shore up the ruling al-Khalifa family. Mr Isa Ahmed Hassan Kambor, convicted of killing a police sergeant last March, was shot by firing squad before dawn yesterday. This was the first execution in the Gulf's banking centre since 1977, and is seen as an escalation of the confrontation between the al-Khalifa Sunni Muslims and the majority Shi'a community,

backed by some Sunnis. "This sort of action-reaction is leading us nowhere," said a member of one of Bahrain's leading Sunni merchant families yesterday about the execution. "Solutions will become impossible if this gap continues to grow between the rulers and the people of this island, and not just the Shi'a."

Bahraini security was well prepared for the rioting which followed the execution, sealing off Shi'a villages near the capital, Manama. Bahrain's crisis erupted in December 1994, after the government jailed Shi'a clerics who had compiled a cross-community petition seeking to reinstate the 1973-75 National Assembly elected under the constitution agreed when Bahrain became independent from Britain in 1971.

The government is arguing that Iran's Shi'a mullahs are fomenting the unrest by seeking to establish an Islamic fundamentalist bridgehead on that part of the Arabian peninsula which Persia had held for the two centuries before the al-Khalifa took Bahrain in the late 18th Century. So far, it has produced no evidence of Iranian involvement, which leading merchant families and dip-

lomats dismiss as fanciful. "It's a community movement, not a religious movement," one senior diplomat said. High Shi'a youth unemployment helps fuel the unrest, which the government wants to defuse with increased vocational training and plans to replace gradually a large Asian expatriate workforce with Bahrainis.



Likud leader Benjamin Netanyahu registers to vote

# Israeli youth reshape Labour

By Julian Ozanne in Jerusalem

A new Labour party was taking shape in Israel yesterday as results of internal party elections showed voters had chosen a younger leadership tough on security and strongly in favour of a market-driven economy. Almost 200,000 Labour voters shunned traditional Labour figures associated with the party's trade union and socialist past and opted for former generals and younger politicians ideologically identified with social democracy.

The list elected by Sunday's primaries will be fielded in elections on May 29 under Prime Minister Shimon Peres, who is guaranteed the first slot on the list for the 120-member parliament. The primaries indicate the popularity of candidates inside the party and generally provide hints about the eventual distribution of senior ministerial posts. Four former generals were among the top 10 candidates, reflecting the national mood in favour of tough security following a wave of Islamist suicide bombings. The top 12 candidates broadly support the government's market reforms of the last four years and are not associated with the old-guard social welfare wing of the party which has fought reforms and spending cuts.

Among those who did well were Mr Ehud Barak, 53, foreign minister and former army chief; Mr Haim Ramon, 45, who has reformed the Histadrut trades union association; Mr Avraham Shochat, the Jewish Finance minister who jumped from 15th to sixth place and Mr Yossi Beilin, 46, the figure most closely associated with the younger generation. Mr Uzi Baram, the highly popular tourism minister with a reputation as a conciliator, won the number two slot. Prominent losers were Mr Shimon Shetreet, religious affairs minister, who fell from 11th to third place and Ms Ora Namir, the labour minister. Both were associated most strongly with social welfare causes and defence of workers' rights.

"This is new Labour," said Mr Oanny Ben-Simon, a commentator with the Labour Oavar Rishon newspaper. "The youth want a new generation of photogenic and telegenic politicians who more accurately reflect Israel in the late 1990s - more secular, wealthy and European." Part of the shift in the Labour party reflects the 70,000 new party members, mostly from middle class neighbourhoods of Tel Aviv, who joined the party after the assassination of prime minister Yitzhak Rabin last November by a rightwing student. The combination of a leadership tough on security and liberal on economics is widely seen as good for the party's attempt to attract floating voters who decide Israel's closely contested elections.

# Jobs came on to agenda too late, says OECD chief

By Gillian Tett, Economics Correspondent

When Mr Jean Claude Paye, secretary general of the Organisation for Economic Co-operation and Development, travels to Lille for a meeting of the Group of Seven leading industrial countries next week, he will carry three requests with him. Along with calls for G7 finance ministers to boost public confidence in their policies, he wants faster labour market reform and greater efforts to integrate the west's poor and excluded.

Such pleas have a familiar ring. But as unemployment rises in many western countries, they have become more urgent. OECD officials - including Mr Paye himself - increasingly suspect that the move towards a single currency in Europe could increase unemployment in the absence of labour market reform.

As Mr Paye prepares to leave his post this summer after 12 years, his main regret is that the OECD's recent jobs study and the debate it triggered among governments, was so late in coming. "We could and should have started much earlier," he said in an interview yesterday. "But it was very difficult to persuade member states in the second half of the glorious 1990s that there was a problem at all."

The delay that dogged the start of the unemployment study is only one small sign of a broader issue that is dogging the organisation. When the Paris-based group was established more than 30 years ago by the US and its western allies, it was intended as a capitalist bulwark against communism. Since then, it has evolved into an influential think-tank and meeting point for leading industrialised nations, now numbering 26.

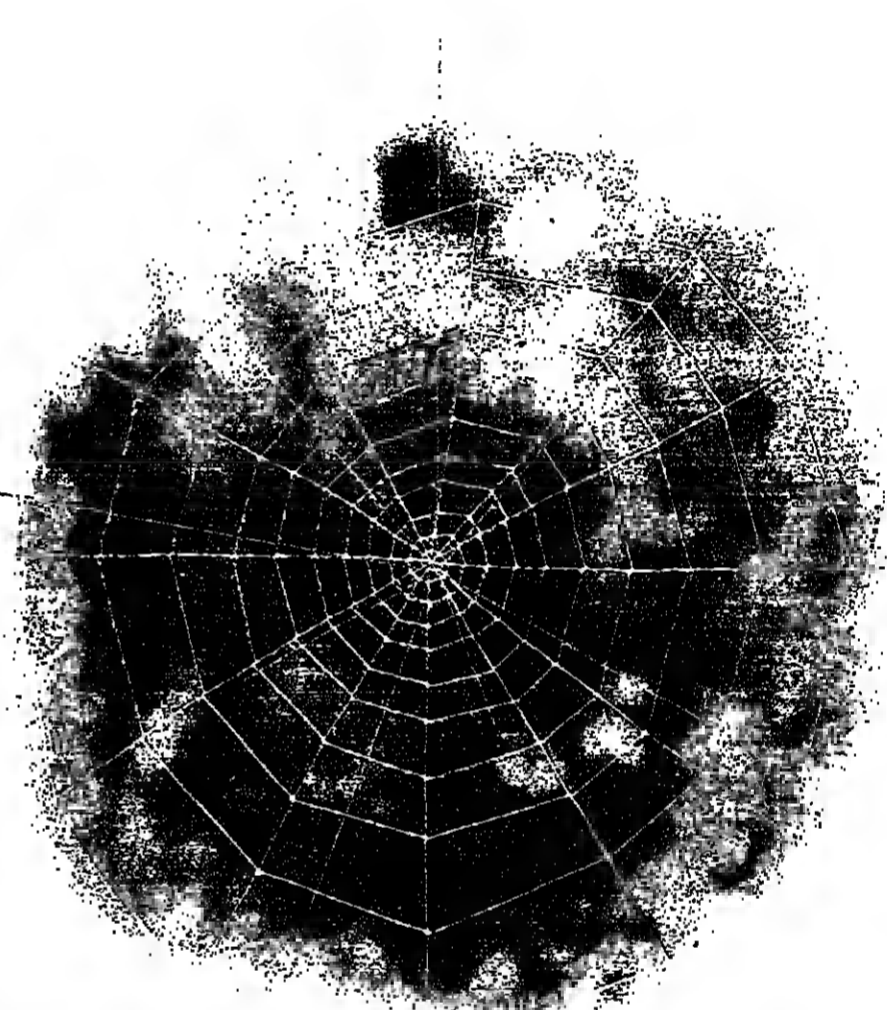
However, the western dominated list of these members looks increasingly anachronistic. The OECD is trying to put this right. For example, Hungary becomes the 27th member tomorrow. But any increase in numbers is likely to leave the OECD with a difficult problem. Not only would a larger membership make it difficult for countries to agree on what they want the organisation to do - but it would also threaten the frank, cosy debate that has always been the OECD's

strength. "This organisation cannot survive if the quality of discussion is deteriorating. It is a very fragile organisation. It has no power, no finances," Mr Paye said. Some observers believe Mr Paye has been too slow to tackle these problems. However, he insists that some attempted changes have been blocked by lack of agreement among the members themselves. One option, he said would be to "throw the door open" to all market economies with democracies. But he suspects that the "chemistry wouldn't work easily". Instead, he argued that the OECD should establish

graduated links with outside countries, in order to "tame them progressively". In the long term, he hoped the organisation could find a role as meeting point between different regional trade groups. In the meantime, Mr Paye denied claims that the OECD focused too much of its attention on Europe. The US and Japan had provided most of the recent initiative, he said, while most European countries "have no imagination left" after dealing with the problems related to the European Union. Mr Paye's successor, Mr Donald Johnston, is a former Canadian finance minister whose approach and style is expected to be different from those of Mr Paye, a former French bureaucrat and diplomat. Meanwhile Mr Paye will soon be dealing with a new issue. In theory he is due to return to the French diplomatic service. But he is unsure whether there will be any role for him there - a sign, perhaps, of the labour market changes that he has spent his years at the OECD trying to highlight.



Paye: flexible future



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NEWS: THE AMERICAS

# Only modest reform expected for US bank regulation, writes Richard Waters

## Long fuse slows Wall Street Big Bang

The latest in a series of attempts to repeal the Glass-Steagall Act, which limits the scope of commercial banks to trade and underwrite securities in the US, is about to enter its final phase.

While expectations for sweeping reform in Congress this year have all but evaporated, many bankers believe the coming weeks will bring a more modest degree of reform through a regulatory, rather than a legislative, route.

The final act in this tortuous legislative saga will be touched off by a meeting late today between Mr Jim Leach, chairman of the House banking committee, and Mr Newt Gingrich, the Speaker, and other leading Republicans in the House.

Long an advocate of bank deregulation, Mr Leach will ask for a chance in April to bring a broad-ranging bill to the floor of the House for a vote. If his request is rejected - as many in the industry and in Washington expect - the Depression-era law that separates commercial and investment banking will remain on the statute books at least a little longer.

Mr Leach's efforts to repeal Glass-Steagall had once seemed to have a good chance of success. A year ago, with a new Republican majority in the House promising to sweep away outdated regulations on business, and with Wall Street's biggest investment banks seemingly no longer opposed to allowing commercial banks further on to their turf, reform seemed likely.



June 16, 1933. US President Franklin D. Roosevelt signs the Glass-Steagall Act prohibiting commercial banks from dealing on their own account in most types of securities. Flanking the president are the act's co-sponsors: on his right, Senator Carter Glass of Virginia, the legislation's chief author; on his left, Representative Henry B. Steagall of Alabama.

The act was largely a response to the growing penetration of securities trading by commercial banks, which many investors blamed for the 1929 Wall Street crash and subsequent decline of the securities market. Glass, who had also been the principal architect of legislation establishing the Federal Reserve System and served briefly as

Secretary of the Treasury, long held the view that commercial banks should restrict their operations to short-term lending.

A year before congressional approval of the Glass-Steagall Act, Glass, chairman of the Senate Banking Committee, had virtually put the nation's bankers on trial. He concluded the committee's hearings by saying: "The intensive participation by commercial banks in the capital markets exaggerates financial and business fluctuations and undermines the stability of the economic organization of the country."

Sources: Encyclopedia of American Business History and Biography, The New Palgrave Dictionary of Money & Finance

That was to reckon, though, without a political force that had bedevilled previous efforts at repeal: the lobbying power of the country's independent insurance agents.

With the most effective political organisation in the financial industry, these agents

were not about to let pass an opportunity to keep their old adversaries, the banks, out of the insurance business. Restrictions were added to the Leach bill to limit banks' insurance activities. These, in turn, have made the legislation unpalatable to

banks, prompting a stalemate. The prospects for a legislative compromise do not seem good. The insurance agents are agitating for two things: a five-year moratorium preventing the Comptroller of the Currency, whose office regulates nationally chartered banks,

from giving banks greater power to sell insurance, and a re-affirmation of the rights of individual states to regulate how insurance is sold. Both would slow the move by banks into the insurance business.

A divided banking industry, meanwhile, has found it difficult to present a united front, making a compromise all the harder to find. Some banks, such as JP Morgan and NationsBank, are concerned mainly to see Glass-Steagall repealed, allowing them free entry to the securities business. Others, including Citicorp and BankAmerica, are more interested in expanding insurance sales through their retail banking operations.

Having failed to broker a compromise, Mr Leach has turned his efforts to forcing through a bill nonetheless - a tactic that seems to have a very low chance of success.

On top of the provisions on insurance and securities powers, the House bill includes a host of deregulatory provisions aimed at reducing the red tape on banks. It also contains the legislation needed to salvage the insurance fund of the savings and loans (or thrift) industry, largely through a one-off levy on banks.

There is something in here to please - and to antagonise - everyone. "There are a lot of diverse interests here," says a spokesman for the banking committee, adding that the committee's own members themselves want different things from the legislation. According to one widely held view, this makes Mr Leach's

final push a calculated attempt to kill the bill for good.

However, that would free the way for action on a different front. With the Glass-Steagall legislation vague about how far banks could go in the securities markets, it has been left to the Federal Reserve to provide specific rules. And while the Fed has always avoided pre-empting Congress on such politically sensitive issues, some officials now say that the Fed is ready to act quickly to relax its rules if a political solution is not found.

Currently, a bank's securities subsidiary can earn no more than 10 per cent of its revenues from what are known as "ineligible" activities, mainly underwriting and trading equities and corporate debt. It is this 10 per cent rule that is making life increasingly difficult for those commercial banks that are trying to build securities businesses.

The Fed could either lift the 10 per cent limit, or opt for a less restrictive version of the 10 per cent test, officials say. One route could be to apply the limit to a securities subsidiary's assets, rather than its revenues - a change that bankers say would extend their ability to underwrite securities, while not greatly easing the trading limits.

Without a broader reform backed by Congress, however, the convergence of the country's commercial and investment banking industries, possibly in a Wall Street re-run of London's Big Bang of the mid-1980s, is likely to be delayed indefinitely.

AMERICAN NEWS DIGEST

## Canadian polls boost Liberals

Canada's ruling Liberal party has been given a shot in the arm by retaining five seats in by-elections in Quebec, Ontario and Newfoundland. A sixth seat, in rural Quebec, was retained by the secessionist Bloc Québécois.

The Liberals were especially relieved to win contests in two Montreal-area constituencies. The Liberal candidates, Mr Stéphane Dion and Mr Pierre Pettigrew, were both appointed to the cabinet earlier this year in an effort by Mr Jean Chrétien, the prime minister, to infuse fresh blood into the federalist camp in the French-speaking province.

The right-wing Reform party finished a strong second in a suburban Toronto seat and one of the Newfoundland contests, despite signs the party, whose strength is mainly in western Canada, was finding it difficult to capitalise on its breakthrough in the 1993 general election.

The Reform campaign centred on the slogan "Boot the Bloc" - a reference to its efforts to supplant the Bloc Québécois as the official opposition in the House of Commons. The BQ has 53 seats, one more than Reform. The Liberals hold 377 seats.

The by-elections were a disappointment for Mr Jean Charest's Progressive Conservatives. The Tories have been struggling to recover from their crushing defeat in the last general election. Mr Charest won wide acclaim, however, for his performance during last October's independence referendum in Quebec.

Bernard Simon, Toronto

## US consumer confidence steady

US consumer confidence held steady this month after a sharp improvement in February, the Conference Board, a New York business analysis group said yesterday.

The index fell marginally to 97.7 from 98 in February. This was in line with readings late last year and well above the trough of 83.4 in January when severe weather and other distortions depressed economic activity. Confidence readings of about 100 typically indicate solid economic growth.

The survey indicated consumers were generally "quite positive" about business conditions. However, Mr Edgar Fielder, economic counsellor at the board, said there was evidence of "uneasiness about the job market". Coupled with concerns about future levels of income, this did not suggest consumers were ready to spend more freely, he said.

Michael Prouse, Washington

## Economy stable, says Greenspan

Mr Alan Greenspan, Federal Reserve chairman, said the US economy was running at a "reasonably good rate", with inflation at the lowest levels in recent history.

In testimony before the Senate banking committee yesterday, Mr Greenspan said that Fed monetary policy had succeeded in producing stability "at least for the period ahead".

The committee was conducting hearings into President Bill Clinton's nominations for vacant Fed positions. Mr Greenspan has been nominated for a third term. Ms Alice Rivlin, Office of Management and Budget director, has been nominated as vice-chairman, while Mr Laurence Meyer, a private economist, has been nominated for a vacant governorship.

In his prepared remarks, Mr Greenspan stressed the dollar's role as the world's leading currency. He said maintaining "the key role of the dollar is important to American growth and standards of living".

AFX and Reuter, Washington

## Date for Caracas petrol rise

Venezuela will raise the price of petrol after the Easter holiday period, Mr Erwin Arrieta, the energy and mines minister, said yesterday.

"Definitely the measure will be implemented after Easter," Mr Arrieta said after a meeting with Venezuela's largest union, the Confederation of Venezuelan Workers (CTV).

The increase in petrol prices is a central part of the government's ongoing talks with the International Monetary Fund for a \$2.5bn standby loan.

Reuter, Caracas

## Samper testifies in poll probe

Colombian President Ernesto Samper testified yesterday in a widening investigation that could lead to his impeachment on charges that his 1994 election campaign was bankrolled by Cali drug lords.

Mr Samper's testimony was taken behind closed doors at the ornate presidential palace in Bogotá. Government officials said it could be made public as early as today under a law approved last week declassifying all evidence in the deepening campaign finance scandal.

Mr Samper has repeatedly protested his innocence and insisted that if drug money entered his campaign it did so without his knowledge.

The ministers of the Interior, foreign relations and communications were also due to testify this week as part of a parallel Supreme Court investigation into charges they knew about and helped cover up millions of dollars in contributions from the Cali drug trafficking cartel to Mr Samper's election campaign.

Reuter, Bogotá

## Ed Muskie dies aged 81

Mr Edmund Muskie, former US Secretary of State, died yesterday after vascular surgery and a heart attack. He was 81.

President Bill Clinton said he was deeply saddened by the death of the former Democratic senator and governor of Maine. "A dedicated legislator and caring public servant, Senator Muskie was a leader in the best sense," Mr Clinton said. "His spoke from his heart and acted with conviction. Generations to come will benefit from his steadfast commitment to protecting the land."

Mr Muskie served briefly as secretary of state from 1980 to 1981 under President Jimmy Carter. Before that, as a senator, he served for more than 20 years and pushed for environmental laws, chaired the budget committee and was a member of the foreign relations panel.

Mr Muskie was vice presidential running mate on Hubert Humphrey's losing Democratic ticket in 1968 and was briefly a contender for the party's presidential nomination in 1972. He was governor of Maine from 1955-59 and a US senator for that state from 1959 to 1980.

Reuter, Washington

## IADB ANNUAL MEETING

# US investors put Europe in the shade

By Stephen Fidler in Buenos Aires



A big shift in patterns of foreign direct investment into Latin America during the 1990s has made the US by far the dominant foreign investor in the region, pushing Europe into a distant second place. The conclusions arise from figures released this week by the Inter-American Development Bank and the Madrid-based Institute for European Latin American Relations (IRELA), which also show the rapid expansion in direct investment flows that has taken place since 1990.

From 1980-85, Latin America received \$65bn of FDI flows, four times the level of the last half of the 1980s. However, as investment increased, US flows began to overwhelm those from Europe. In the second half of the 1980s, direct investors in Europe were more active

than US investors, investing a total of \$8.33bn against \$4.71bn from the US and \$745m from Japan. From 1990-94, however, US investors were responsible for \$32.67bn of investment, against \$10.41bn for Europe and \$1.58bn from Japan.

In the period, US investments in Brazil amounted to \$11.22bn, slightly more than in Mexico at \$11.16bn. Brazil was also the main target of European investment, accounting for \$2.97bn, against \$1.60bn for Mexico.

Mr Wolf Grabendorff, director of IRELA, said several factors appeared to be behind the shift in investment patterns.

The European single market and the European recession have successively dominated corporate strategies. Eastern Europe may have diverted a small amount of investment, but has not been a critical factor.

Furthermore, he said, US proximity to the region and aggressive US strategies to expand exports had paid off. As

Latin America grows, regional demand for US exports grows more rapidly than demand for those from Europe. Investment was following trade, and the US appeared to have an increasing commercial stake in the region.

"US trade with Latin America has been growing at an average 20 per cent for the last four years. If you project those figures, Latin America will by the year 2000 be buying more goods from the US than does the whole of Europe."

In an attempt not to cede the commercial advantages of a resurgent Latin America entirely to the US, the European Union has embarked on a series of agreements with Latin America which could eventually lead to free trade. The most advanced is with Morocco, the southern cone customs union of Argentina, Brazil, Uruguay and Paraguay. A next stage of talks begins tomorrow in Buenos Aires.

Mr Grabendorff said that the EU was seen by governments in Latin America

as providing a more stable framework for trade negotiations than that provided by the possible extension of the US-led North American Free Trade Agreement which was seen as "very volatile".

However, the US has advantages. Mr Larry Summers, undersecretary at the US Treasury, told the annual meeting of the IADB in Buenos Aires that he favoured allowing member countries to borrow as much in dollars from the bank as they wanted to. Currently, they are mostly forced to borrow in a basket of currencies.

"I'd like to see countries being able to get the product that they want from the bank. I suspect that for many Latin American countries that would be a fully dollar product." However, some private European economists saw the move as a tentative attempt to begin establishing a dollar zone in Latin America.



Bratton: star performer on way out

## New York police chief resigns

Mr William Bratton, the swaggering New York police commissioner whose personal stature soared as city crime took a dive, announced yesterday he was resigning after more than two years as leader of the nation's largest police department, AP reports from Washington.

"I am leaving an organisation I have come to love dearly," Mr Bratton said after meeting Mayor Rudolph Giuliani privately for half an hour.

The commissioner said he was taking a New York-based position with First Security Services of Boston, running a New York division. He would not say what he would earn.

The resignation came amid rumours that Mr Giuliani - despite the commissioner's crime-fighting prowess - was sick of Mr Bratton's self-styled stardom.

But Mr Giuliani yesterday called Mr Bratton's tenure "exceptional" and "a turning point in the department."

In Mr Bratton's first two years in the job, reports of serious crime dropped 27 per cent. Homicides alone fell nearly 40 per cent - to 1,182 in 1995 from 1,527 in 1993.

Both Mr Giuliani and Mr Bratton had insisted that reports of a clash of egos were exaggerated. The mayor praised Mr Bratton, even hailing his appearance on the cover of Time as a publicity coup for the city.

But in recent weeks, tabloids predicted Mr Bratton, 48, would leave the \$133,000-a-year job to write his memoirs - he has a \$350,000 book deal - or take a more lucrative job in private enterprise.

Fuelling the speculation were a series of seeming affronts by the first-term mayor, including an order that Mr Bratton's book deal be reviewed for possible conflict of interest.

Mr Bratton was Boston's police chief before taking the New York job in early 1994. He soon won admirers on Wall Street by applying corporate management techniques to big-city policing.

# Panama to sign \$3.5bn accord on debt

By Stephen Fidler in Buenos Aires

Panama's President Ernesto Peréz Balladras and the country's bank creditors will sign a \$3.5bn concessionary debt accord in Paris on April 17, the government said yesterday.

Mr Guillermo Chapman, planning and economy minister, said the accord would reduce bank debt by the equivalent of 31 per cent. Some

\$1.5bn of the total is interest arrears.

Given the choice of three types of bonds, creditors representing 83 per cent of the debt chose to exchange old bank debt for 18-year interest reduction bonds, which carry 00 guarantees; 14 per cent chose guaranteed 30-year par bonds and 4 per cent 30-year discount bonds.

Mr Chapman said the government was initially uncom-

fortable with the domination of one type of bond, which increases the government's debt servicing bill in the early years of the agreement. But it reduced the need to finance guarantees and was manageable under conservative economic assumptions, he said. Panama's total debt is about \$6bn.

The signature of Panama will leave only Peru among Latin American debtors yet to

resolve debt arrears with its bank creditors. Mr William Rhodes, vice-chairman of Citibank, which also led the Panamanian accord, said that after talks yesterday with Mr Jorge Camet, the Peruvian finance minister, he expected a term sheet specifying the details of the agreement with Peru would emerge before the end of next month.

The IADB is considering diverting some of its profits to

expand the availability of concessionary finance to its poorest members.

The bank approved a record \$765m of soft loans under its Fund for special operations last year to Bolivia, Haiti, Honduras, Guyana and Nicaragua. But according to Mr Enrique Iglesias, IADB president, resources are available only to provide \$350m of soft loans annually on a sustainable basis.

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# IMF urged to be bolder in fight to stem bank crises

By Stephen Fidler

The International Monetary Fund and the World Bank must step in more aggressively to resolve problems in developing country banking systems before they develop into crises, Mr Charles Dallara, managing director of the Institute of International Finance, said yesterday.

Mr Dallara, whose Washington-based organisation speaks for international banks and other financial institutions, said the IMF must make the performance of financial systems a central part of its approach to borrowers.

His comments come after Mr Larry Summers, undersecretary at the US Treasury, called for the Fund to play a greater role in tracking financial system performance. However, he suggested in an interview that initially this role would probably have to be confined to monitoring banking system developments rather than incorporating them in the financial targets.

"To some extent this may already be happening. Officials in Argentina say an IMF team

is due in Buenos Aires in some weeks to review the country's financial system.

However, Mr Dallara said monitoring developments was not enough. "If it's just a technical study, it tends to gather dust, not momentum," he said. The IMF had long resisted incorporating structural issues into its programmes, despite the fact that longer-term extended fund facilities were created more than a decade ago to do just that. The IMF "has a long way to go before it adapts to the reality of the 1990s," he said.

He said the World Bank could also do more in the field. Its experience across several continents would make it the natural lead institution, co-operating closely with the appropriate regional development banks, such as the Inter-American Development Bank.

Both institutions have devoted more resources to Latin America's financial sectors since the banking crises in Venezuela, Mexico and elsewhere, and are involved in technical areas such as the training of bank supervisors.

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CHASE

March 27, 1996

Australian lifts bus confidence

Hang Kong rises

Staff decision

India mine cleared

securities market



# Australia poll lifts business confidence

By Nikki Tait in Sydney

Business confidence in Australia has picked up sharply after the conservative coalition's sweeping victory in federal elections this month, according to the latest quarterly industrial trends survey by the Australian Chamber of Commerce and Industry and Westpac bank.

But any encouragement from the news yesterday was countered partly by fresh warnings from the Australian Council of Trade Unions, the main union body.

ACTU said members could investigate "a range of political and industrial action" if the new government persevered with its plan to phase out so-called "paid rates awards" in favour of minimum conditions. Paid rates awards, prevalent in the public sector, stipulate actual rates of pay. Minimum rates awards, simply set a base rate.

The ACCI-Westpac survey is one of the first pieces of statistical data since the change of government on March 2, which brought to an end 13 years of Labor rule. It found that manufacturing activity remained weak in the first quarter, with industry reporting falling output and lower orders. Capacity utilisation also declined.

By contrast, most manufacturers said they were expecting improved conditions over the next six months, and expected to see new orders and output rise in the second quarter. In the first quarter, some 34 per cent of respondents predicted

improved business in six months, compared with only 8 per cent in the final quarter of 1995.

The ACCI said the result reflected "real confidence in a new government that had new policies", but warned against reading too much into the survey. In at least one instance in the recent past, it noted that "euphoria" after a change of government had failed to translate into sustainable progress.

"There was a similar lift in confidence in 1983 and 1978," said Mr Ian Spicer, chief executive. "The 1983 election coincided with an already emerging upswing in business conditions. In 1978, there was no upswing under way, and the lift in confidence did not translate into any improvement in manufacturing activity."

In 1975, the Liberal-National coalition, under Mr Malcolm Fraser, won power from the Labor government of Mr Gough Whitlam. In 1988, Mr Bob Hawke won power back for Labor.

After a meeting yesterday to discuss the government's plans for minimum rates awards, ACTU said: "In the event that the government proceeds to implement changes... all unions will discuss with their members the range of political and industrial action they are prepared to implement."

Opinions mentioned ranged from worker rallies to lobbying in Canberra. The ACTU claims the government's policy will "put at risk the current level of take-home pay and conditions for almost 1.7m workers."

# Power play threatens to dethrone democracy

The coalition between Cambodia's royalist Funcinpec party and communists is at risk

In 1993 Cambodians went to the polls for the first time in decades and voted for the royalist Funcinpec party, which promised to bring peace and reform the state along democratic lines.



Tension between power-sharing prime ministers Hun Sen (left) and Prince Norodom Ranariddh

But the defeated communists threatened civil war and in the interest of much-needed national reconciliation, Funcinpec agreed to form a coalition government.

Midway through the government's five-year term, and two months before international donors - who have already pumped nearly \$3bn into Cambodia over the past few years - meet in Tokyo to discuss additional aid for the south-east Asian nation, the coalition is in danger of falling apart.

Through a masterful series of strong-handed and subtle political moves, Mr Hun Sen, second prime minister and leader of the ex-communist Cambodian People's Party (CPP), still controls the army, police, judiciary and bureaucracy. He has forced political rivals into exile and thrived in the free-for-all economy which the government cannot seem to bring under control.

Meanwhile, Funcinpec, plagued by blunders, capitulations and repeated allegations of high-level corruption, is frustrated. "Two years have passed, but the royal government has not been able to fulfill even 50 per cent of its promises," said Prince Norodom Ranariddh, first prime minister, at the end of last week's national party congress.

Complaining that the CPP had not lived up to power-sharing agreements made in post-election negotiations, Prince Ranariddh added: "If it is necessary, we are not afraid to withdraw from government."

This scenario could lead Cambodia back into "political polarisation", warns Mr Lao Mong Hui, director of the Khmer Institute of Democracy.

Already some consequences of Mr Hun Sen's grip on power can be seen. Mr Hun Sen is building up a private client base under the guise of development. One disgruntled teacher reckons he has personally funded the construction of more new schools than the Education Ministry has over the past few years.

"Instead of the government collecting \$100 in taxes, companies are giving \$50 to Hun Sen," says Mr Sam Rainsy, former finance minister, who was successively expelled from the cabinet, Funcinpec and the National Assembly for his anti-corruption drive.

"Hun Sen then keeps \$25, spends \$35 on constructing something, puts his name on it and ends up looking like Mother Teresa. But what we really are creating is another Marcos, another Duvalier," Mr Rainsy says.

Nevertheless, there have been substantial peace dividends with the end of the civil war. One is that Cambodia produces enough rice to feed itself and may begin exporting later this year.

In Kompong Chhnang province, a massive Asian Development Bank funded irrigation project has been completed so that the Khmer Rouge are no longer a threat in the area.

Yet even here, abuses of authority are holding back development. An irrigation technician laments that he was not able to get farmers near the reservoir to plant an extra

crop this year. They fear the CPP officials who control the irrigation department will be tempted by the quick cash they can make by opening the floodgates - meaning a loss of crops - and catching all the fish swept in the current.

Such abuses could be curbed by an efficient judicial system. But the judiciary remains a bastion of CPP appointees. Funcinpec leaders claim Mr Hun Sen has refused to co-operate in setting up a judicial council to check the constitutionality of new laws. As the country's King Norodom Sihanouk has repeatedly pointed out, this leaves open the possibility that each and every law passed since the 1993 elections could eventually be declared invalid.

The struggle to revive Funcinpec has been made difficult by ruminations from King Sihanouk, its spiritual leader. In an interview with the Cambodia Daily earlier this month, the 73-year-old king said he told Prince Ranariddh that "when I die, please replace me... It will be good for you to be king because as king it will be easier to have a clean reputation."

King Sihanouk went on to explain the political consequences of the prince's expected promotion. "Funcinpec would disappear as Ranariddh would be king and a king must not have a party," he said. Mr Hun Sen, the king predicted, would win the elections in 1998.

In an interview released by the royal household yesterday the king expressed concern over tensions between the two coalition partners. "I am worried about the very bad consequences for the country, nation and the people of this unexpected 'crisis'," he said.

Waiting in the wings is Mr Rainsy, who recently got around government attempts to have his new Khmer Nation party banned by merging with a defunct, but still legally registered party.

Mr Rainsy, who claims more than 80,000 members, says he is ready to take in many of his former colleagues at Funcinpec and become "the only organised and acceptable liberal democratic alternative in Cambodia". But he worries that collapse of the coalition would lead to a "communist-style" election in 1998, after which only one prime minister can hold office.

Mr Ly Thuch, director of Prince Ranariddh's cabinet, says: "We all realise that if Funcinpec disappears, then democracy does as well."

Ted Bardacke

## ASIA-PACIFIC NEWS DIGEST

### Hong Kong sees assets rise 13%

Hong Kong's exchange fund, the territory's treasury chest, increased its total assets by 13.5 per cent to HK\$461bn (US\$60bn) last year, the Hong Kong Monetary Authority announced yesterday. Mr Joseph Yam, HKMA chief executive, said the figures, which include foreign currency reserves of US\$27.2bn, demonstrated the health of Hong Kong's financial position. Hong Kong ranks seventh in the world in terms of overall foreign exchange reserves, and second on a per capita basis, according to the HKMA. Accumulated earnings of the exchange fund, which is principally invested in bonds, saw a record increase last year, rising by HK\$34.3bn to HK\$160.1bn.

The sharp increase reflected the rally in the US bond market last year. But Mr Yam said that the outlook for 1996 was more difficult. "There are mixed forecasts for interest rate levels this year, while a stronger US currency will affect our non-US dollar foreign assets," he said.

The fund, which can be used to defend the currency from speculative attacks, is mainly comprised of US denominated assets. *John Ridding, Hong Kong*

### NTT sell-off decision delayed

A working team of the ruling Japanese coalition decided yesterday to delay a decision on whether to break up domestic telecommunications giant Nippon Telegraph and Telephone until mid-1997. Officials said the Social Democratic party, the second largest group in the tripartite coalition, called for a careful study over the next three years, while the Liberal Democratic party, the main governing force, wanted an earlier decision, and the New Horizons party maintained simply that a conclusion be reached "as soon as possible".

The coalition discussion follows submission of a report late last month by the Telecommunications Council, an advisory panel, which calls for NTT to be split into long-distance and two regional companies by the end of March 1997. *Eyodo, Tokyo*

### Cambodia mine clearer seized

A British mine disposal specialist and his interpreter were kidnapped yesterday in Cambodia by an armed group which released up to 27 others after detaining them for much of the day. Mr Christopher Howes, 36, was working in the northern Siem Reap province for the Mines Advisory Group, a UK-based international charity which is seeking to clear the estimated 5m land mines - a legacy of the country's civil war.

A radio conversation between the military and the kidnapers overheard by aid agency workers indicated the gang had wanted a ransom for all the hostages. Mr Howes wanted Mr Howes to act as courier for the funds but he had refused. Officials differed on whether the armed group comprised Khmer Rouge guerrillas. *Foreign Staff, London*

### Burma securities market planned

Daiva Institute of Research has been granted permission to set up an over-the-counter securities market in Burma. The market, an equally owned joint venture with the state-owned Myanmar Economic Bank, is due to begin operations in May. The Myanmar Securities Exchange Centre, as the market will be known, involves an initial investment of \$3.4m. It will initially concentrate share trading activities which occur in various grey markets around the capital of Rangoon and then become a securities company once a fully fledged stock exchange is launched in Burma. *Ted Bardacke, Bangkok*

### Seven die in India poll attack

Seven people died and almost 100 were hurt when grenades were thrown at a politician at an Indian election rally, the first significant violence of the campaign. A state official said yesterday Mr Om Prakash Paswan and two others had been killed instantly in the attack near Gorakhpur in Uttar Pradesh on Monday night, and four others had died of their wounds. Mr Paswan, a low-caste politician expected to be candidate for Banganon town for the socialist Samajwadi Party, was facing up to 27 criminal charges, including murder. *Reuters, Lucknow*

A Taiwan government stock market stabilisation fund set up as tensions with China rose has so far bought over US\$60bn (\$2.2bn) worth of shares, said Mr Thomas Yeh of the Council for Economic Planning and Development. *Reuters, Taipei*

Public sector housing rents in Beijing are to rise 49 per cent this year to YnL30 (16 US cents) per square metre a month, said Mr Chen Xuebin, head of the Leading Group for the Reform of the Housing System. *Reuters, Beijing*

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NEWS: UK

Mad cow disease: meat ban leaves UK increasingly isolated and provokes anger from companies

# Beef crisis fuels bitterness towards EU

By Caroline Southey and Lionel Barber in Brussels

Around 7.30pm on Monday evening Mr Jacques Santer was preparing to leave his office on the twelfth floor of the European Commission building when the telephone call came from London.

Mr John Major, the UK prime minister was on the line. In 10 incoherent minutes, prime minister he distilled the frustration and bitterness his government feels towards Europe in its struggle to contain the crisis over mad cow disease.

Mr Major had just heard that Mr Santer, the president of the Commission, had accepted recommendations from a committee of EU veterinary experts to impose a worldwide ban on British beef exports. The decision was "outrageous" and "unjustified", he said.

Mr Santer, the genial Luxembourgish who hates confrontation, listened with astonishment as Mr Major described the committee as "ludicrous men" and called for a delay in the ban so that British experts

The ban on British beef exports recommended by EU veterinary experts on Monday is sweeping in its scope. Neil Buckley in Brussels writes. Although there was initial confusion about its extent - and officials emphasised that it could still be watered down when European commissioners meet today - it became clear yesterday that an all-embracing ban on bovine meat and products has been proposed.

"The experts from the member states were adamant that, while there was still confusion about the safety of British beef, the ban should be as wide-ranging as possible," said one official. The resulting recommendations are so broad that some

could offer more detailed scientific evidence.

Mr Santer summoned Mr Franz Fischler, the Austrian farm commissioner, who had earlier announced prematurely that the full Commission had agreed to the ban.

"Santer asked Fischler if the decision on the ban was irreversible. The commissioner said no. They both agreed there was no alternative but to let Britain have its say. Any other decision would have been unthinkable," an EU official said.

officials yesterday were already questioning whether they were enforceable.

The commission's decision identifies four categories, saying: "The United Kingdom shall not export from its territory to the other member states or third countries:

● Live bovine animals, semen and embryos.

● Meat of bovine animals slaughtered in the UK.

● Products obtained from bovine animals slaughtered in the UK, which are liable to enter the animal feed or human food chain, and materials destined for use in medicinal products, cosmetic or pharmaceutical products.

even though it had potentially huge implications for the European beef industry.

Second, Britain turned down an invitation to send its top experts to share information with Brussels. Mr Major only made this offer once he heard about the impending ban.

Britain's go-it-alone strategy confirmed the worst suspicions about the UK which is already at loggerheads with its EU partners over monetary union and political integration.

"Can you imagine the French

normally unflappable Mr Fischler, who was so outraged that he fired off a letter on Friday night to Mr Douglas Hogg, the UK farm minister, accusing him of bad faith and incompetence. His anger was still apparent when he announced the committee's proposal for a ban, and firmly and squarely laid the blame for the panic in the beef market on the British government.

The ban has been put on ice until the full Commission meets today to consider the latest report from the committee of veterinary experts. Mr Fischler will then table proposals to the full 20-member Commission where Britain has two representatives: Sir Leon Brittan and Mr Neil Kinnock.

Both have already expressed reservations about the sweeping nature of the British beef ban. Although they are not supposed to wear their national hats, this is likely to prove difficult given the emotions raised by the affair.

Even if they do, Commission decisions are made by simple majority and here the British stand alone.

The UK government's action had the effect of alienating the

Commission on something like this. They would have cooked up a solution weeks before any announcement," an EU official said.

Another British official in the Commission said the Conservative government was paying the price for years of anti-European rhetoric. "Britain has no political leverage. It also has no goodwill to draw on," he said.

The UK government's action

## Farmers blame feed processing

By Alison Maitland

The farming industry widely believes that BSE emerged because of a lowering in the temperature at which sheep and cattle remains were rendered down for animal feed in the 1970s and early 1980s.

Many farmers blame the government for allowing renderers to reduce temperatures. But yesterday the government rejected these accusations, saying it had not been involved in what was "a commercial decision" and that temperatures were not subject to regulation.

The Ministry of Agriculture, Fisheries and Food said BSE was thought to have been caused by several factors, notably the high historical incidence of scrapie, the sheep equivalent of BSE, in Britain. A virulent strain of scrapie is now believed to have passed from sheep into cattle through contaminated feed.

Another theory blames the use of organophosphorus chemicals to control warble fly. This suggestion has been undermined by counter-evidence - for example, Guernsey has the highest incidence of BSE in the UK but OP warble fly treatments have never been used there.

The ministry said the fact that Britain had experienced 154,582 cases of BSE since 1986, while the highest incidence in any other country was 206 cases in Switzerland, was due to the high proportion of sheep in the UK compared with other countries.

Britain had 32m sheep, about four for every head of cattle, so



Beef sales in the UK have plummeted but there are no such worries for Willie McLean, a farmer in Stirlingshire in Scotland where demand is high because cattle are fed a vegetarian diet. In Ireland police stepped up border patrols with Northern Ireland in anticipation of increased cattle smuggling as farmers seek to offload livestock in the wake of the beef crisis.

there was a lot of potentially dangerous sheep remains in cattle feed. At the same time, the drive towards more intensive farming in the 1970s and 1980s meant calves were weaned off milk at an earlier age and fed concentrates, which included protein extracted from animal waste.

The ministry said Britain adopted more efficient rendering methods in common with other northern hemisphere countries such as the US during that period. Animal waste was rendered down in a continuous process, rather than in batches, and for a longer

period at lower temperatures.

However, the UK Renderers Association yesterday rejected the idea that changes in temperature had led to disease through. Mr Brian Rogers, chairman, said this was "a complete red herring". He said: "No changes occurred in the UK that didn't occur in the rest of the world. It's not founded on any temperature change at all. The likeliest answer to why Britain has so much BSE is that the incidence of scrapie is higher in this country."

However, this does not explain why the disease

emerged in 1986, after rendering changes had taken place, rather than at any other time.

British officials suspect more cases have occurred in other countries than are recorded because of the difficulty of positively identifying a disease in a country where it occurs rarely.

The Swiss veterinary office said it thought its larger number of cases - 206 - was due to good information and identification techniques.

Most cases in other countries are believed to be linked to cattle or feed imported from the UK.

## Outrage over ban on 'safe' gelatin

By Roderick Oram

Makers of gelatin, used widely as a food thickener, reacted angrily yesterday to the EC ban on exports from the UK of any product derived from beef.

"I am staggered and appalled," said Mr Roger Jones, chairman of the technical committee of the Gelatin Manufacturers of Europe.

"There is a lot of scientific data to show gelatin is perfectly safe. There has never been any scientific question of gelatin being related to BSE."

Gelatin is made from the skin and bones of cattle, neither of which have been classified as BSE sensitive. Moreover, its manufacture includes treatment in hydrochloric acid and other processes which is thought to render harmless any unwanted agents.

The Ministry of Agriculture and the GME, which represents 14 manufacturers across Europe, are seeking to get gelatin excluded from the ban.

If they fail, however, food manufacturers can readily substitute other ingredients including gelatin derived from pork. The vast bulk of chewing gums, for example, already use vegetarian alternatives to gelatin.

Very few applications specifically demand bovine gelatin, Mr Jones said. One was hard gelatin capsules for pharmaceuticals.

Given the ease of substitution, food manufacturers said yesterday they were not particu-

larly perturbed by the ban.

They might, however, incur some extra costs for reformulating their recipes, finding non-UK supplies or printing new packaging clearly stating that no bovine ingredients were used.

Most food manufacturers already used widely diversified sources. Ross Young, the frozen food subsidiary of United Biscuits, used gelatin from the US and Australasia while Nestle's Rowntree confectionery uses gelatin from the continent.

A few of UB's biscuits used beef fat but substituting vegetable fat would be easy, it said.

For makers of the limited volume of exported UK meat pies and similar products the ban imposes a far greater headache. Switching to 100 per cent imported meat will probably prove expensive as foreign supplies tighten.

Imports of beef face additional hurdles: beef from outside the EU attracts high duties unless it falls within Gatt quotas. Three of the four annual quotas running to June are already virtually filled. Extension of those quotas was urged yesterday by the British Retail Consortium representing British retailers.

The BRC said its members would keep British beef on sale but will try to ally customer fears by giving more information. In some stores, this might be as detailed as the farms where the cattle were raised and their feeding regimen.

## Balance of payments for 1995 swings further into deficit

By Graham Bowley, Economics Staff

Britain's balance of payments swung further into deficit in the final quarter of last year as transfer payments to European Union institutions reached record levels, official figures showed yesterday.

The current account was in the red to the tune of £1.5bn in the fourth quarter of last year, the Central Statistical Office said.

This was less than the £2.1bn deficit recorded in the third quarter, because of a recovery in income from UK companies' investments overseas, which recorded its highest surplus for a year and half.

But the figure took the deficit for 1995 as a whole to £6.7bn. This was more than three times as big as the deficit in 1994 - but still little more

than half the size of the £11bn deficit recorded in 1993.

Revisions to earlier data also provided a gloomier quarterly picture of the balance of payments throughout 1995 than earlier figures had suggested.

The CSO increased its estimates of the deficit in both the second and third quarters of last year by about a third because of lower investment income from abroad and higher transfers to the EU.

The UK's payments to EU institutions - such as the agricultural fund, social fund and regional development fund - far exceeded receipts from the EU last year.

The payments deficit almost doubled from £2.1bn in 1994 to £4.1bn in 1995.

There was a particularly sharp deterioration in the fourth quarter. The deficit on overall transfers, including

the current system of measuring and controlling government finances based on the public sector borrowing requirement, hinders investment and should be reformed, a leading accountancy firm says today.

Coopers & Lybrand says that attempts to control the PSBR, which tends to focus on government borrowing in one year, mean that longer-term investments are cut for the sake of short-term savings.

The firm proposes instead that an annual set of government accounts should be published and that there should be changes to financial controls to enable public bodies to raise more private finance for new investment in areas such as council housing.

Ms Rosemary Radcliffe, the firm's head of economics, said: "No sensible person would try to assess the financial position of a company just by looking at its borrowing in a single year, rather than by assessing the company's overall balance sheet strength, so why do we continue to do this for the government?"

The report's conclusions are based on the firm's analysis and on the findings of a survey of 34 leading economists, bankers and academics across the City.

Mr John Hawksworth, the head of macroeconomics at Coopers & Lybrand and the author of the report, said: "The easiest thing to cut if you are trying to improve short-term finances is investment and, as a result, the government's assets have been run down." He said that a set of annual accounts should be published in line with best practice in the private sector.

Direct investment overseas by UK companies rose to a record £24bn in 1995. Direct investment in the UK by overseas companies also rose to record levels. It tripled between the third and fourth quarters of the year - largely reflecting overseas company takeovers of UK companies.

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UK NEWS DIGEST

## BT hails video on demand trial

British Telecom's radical video-on-demand delivered down ordinary telephone lines could lead to a \$500m investment next year.

The commercial experiment - one of the most comprehensive in the world - costing between £30m and £50m began last July in 5,000 homes in Ipswich and Colchester, Essex. It has proved attractive for films, soap operas in advance of broadcast and home shopping via the television.

BT has been transmitting digitised information and pictures from databases at local telephone exchanges down ordinary telephone lines. High-quality video pictures can be transmitted at the same time as the line is being used for normal conversation, although a digital decoder is needed.

BT believes it has produced "very encouraging" levels of use.

A total of 18,000 different items are available through home shopping, for example, with each purchase averaging £24 so far.

Raymond Snoddy

## V-chip plan for TVs abandoned

The government has abandoned the idea of introducing V-chips to prevent children from watching "unsuitable" television programmes, despite the growing pressure to curb violence on TV following the recent Dunblane massacre.

Mrs Virginia Bottomley, national heritage secretary, is understood to oppose the proposal requiring the installation of the electronic devices in UK televisions because it would place an unfair burden on British manufacturers.

The decision follows a meeting between Mrs Bottomley and Mr Arthur Poher, a US expert on the classification of video games and a critic of the V-chip system. Advocates of the V-chip want the electronic device to be fitted into television sets during manufacture, allowing parents, using a secret password, to set tolerance levels for violence, sex and bad language for a particular age range.

James Harding

## BT loses bid for compensation

British Telecommunications yesterday lost its battle for compensation from the UK government over its failure to implement European public procurement rules correctly.

The European Court of Justice in Luxembourg said the government did not have to pay damages to BT as the UK's incorrect implementation of the 1993 public utilities procurement directive was not a sufficiently serious breach of European law.

BT claimed it incurred additional costs in complying with the incorrect national law. It also claimed that the national regulations prevented it from concluding profitable transactions and placed it at a commercial and competitive disadvantage by forcing it to publish its procurement plans and contracts. Competitors were exempted from that requirement.

Robert Rice

## US boost for Lloyd's

US insurance regulators have warned that legal actions being pursued by state securities regulators against Lloyd's of London could deal "a stunning blow" to the US insurance market.

Providing a powerful boost to Lloyd's attempts to head off the legal cases which threaten to undermine the insurance market's recovery plan, the National Association of Insurance Commissioners have agreed a strongly-worded declaration setting out their fears about a highest profile case, brought by California's securities regulators.

After a meeting in Detroit on Monday, they warned that "the effect of freezing Lloyd's operations would be devastating. It would deal a stunning blow to the US insurance marketplace and the US economy which would be felt for decades".

The commissioners are alarmed about the consequences for US policyholders if securities regulators succeed in freezing all or part of £7.8bn (\$12bn) held in trust on behalf of Lloyd's to support insurance and reinsurance underwriting in the US.

The announcement follows intensive lobbying by Mr Chuck Quackenbush, California's insurance commissioner, who earlier this year arranged for Lloyd's to underwrite a large part of California's earthquake insurance programme.

Separately, the New York Insurance Department warned that it was prepared to seek court orders preventing others gaining access to the funds.

Ralph Atkins

## Front line role for women

The British army is reviewing its policy of excluding women from front line combat roles, with a report likely to be sent to ministers by the summer.

It is not clear whether the army is likely to change its policy, but the Ministry of Defence is concerned that it may again fall foul of sex discrimination legislation if it continues to exclude women from some roles.

At present only 47 per cent of the army's jobs are open to women, with all posts in the Household Cavalry, Royal Armoured Corps and the regular infantry closed. Women are also excluded from some jobs in the artillery and engineers. Women do serve in combat roles with the Royal Navy and the Royal Air Force, but these are considered to be less physically demanding than hand-to-hand combat.

Britain may come under pressure because some continental countries, such as Belgium, already allow women into all parts of the army.

Bernard Gray

## Low recovery rate of stolen cars

Drivers in the UK face the highest chance of having their cars stolen, and the second lowest possibility of recovering them, according to figures from the European Secure Vehicles Alliance, a car crime prevention association. Only Italy, which reported less than half the number of stolen cars in 1994 (the latest year available) had a lower recovery rate. By contrast, only 7 per cent of the cars stolen in Norway were not found.

According to the Automobile Association, older cars, rather than glitzy new models, form the most popular targets for British car thieves, because they lack the latest security locks, immobilisers and alarms. Rather than being disguised and sold, most of the older vehicles stolen are stripped down for their spare parts. "Spares from a five-year-old car - which is unlikely to be alarmed or fitted with an immobiliser - are often worth far more than the car itself," says the AA.

Raig Simonsen, Motor Industry Correspondent

## Stolen cars recovered



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## BUSINESS AND THE ENVIRONMENT

Marian Edmunds reports on a do-it-yourself environmental manual for tour companies

## Green guidance

Operators of small and medium-sized tourism companies often feel that good environmental practices are beyond their expertise or budget.

The tourism industry is fragmented and small businesses may be unable to afford, or culturally resistant to, hiring environmental consultants. So they may think it unlikely that a small outlay can achieve cost savings and environmental benefits and bring extra business.

Yet the evidence suggests that all these things are possible, so long as help and guidance is available. This is recognised by the Rural Development Commission, which has just launched a do-it-yourself environmental audit manual for tourism enterprises, with the assistance of the English Tourist Board and British Airways.

The national launch of the Green Audit Kit - The DIY guide to Greening Your Tourism Business follows a successful pilot project run in 1993 and 1994 by the South Devon Green Tourism Initiative.

"Many tourism businesses became interested when they realised the potential cost savings but many were also inspired by the

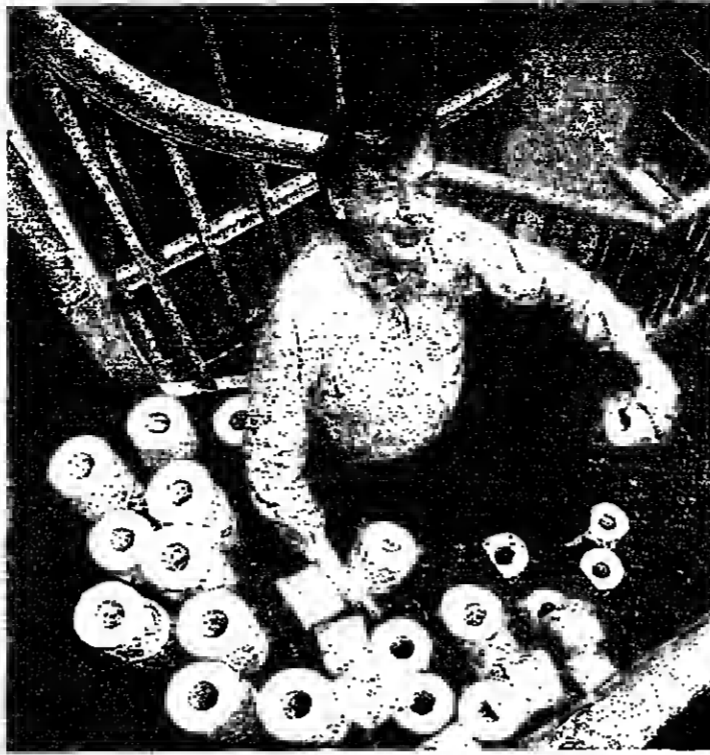
need to care for their local environment," says Paul Dingle, project manager for the pilot scheme.

Nigel Way, owner of the 25-bed-room Royal Castle Hotel in Dartmouth, Devon, admits that at first he "emphatically looked at the Green Audit Kit as a marketing tool". Soon his satisfaction at improving his hotel's environmental performance surpassed marketing aims. "Once you start making environmental improvements the feel-good factor sets in and it becomes obsessive."

"The early steps [energy improvements] we took saved us £2,000 in the first year." Now he is less concerned with cost savings than with environmentally sound practices and holds regular meetings with staff where everyone from the kitchen hands to senior staff are encouraged to make suggestions or criticisms.

Visitors, he says, respond positively. "I believe visitors are more concerned about the effect they have on the environment than many businesses give them credit for."

A green folder is left in each room explaining what environmental steps the hotel is taking and how



Stepping up improvements: Nigel Way at the Royal Castle Hotel

the guests may help. Suggestions include adjustment of radiator thermostats or indicating which towels need washing by leaving dirty towels in the bath.

Six topics are included in the kit. They include resource efficiency - energy and water, thoughtful purchasing, waste and recycling, the visitor environment, transport and the local environment. According to Delwyn Matthews, development manager for the West Country Tourist Board: "The underlying theme of the kit is teamwork among representatives of statutory bodies and the tourism industry. Eighty per cent of the UK's hotels have 10 beds or less so it makes sense to harness expertise particularly when

national funding has been severely limited," says Matthews.

The WCTB, the largest regional tourist board in England, piloted the kit and several other tourist boards have expressed interest. Financial support for the kit was provided by British Airways.

"Large businesses are often able to employ environmental advisers and the Green Audit Kit provides a means for small businesses to embrace their responsibilities," says Hugh Somerville, BA's head of environment.

*The Green Audit Kit, The DIY Guide To Greening Your Tourism Business. Available from Regional Tourist Boards in England. £10*

## Mighty motor

Increased energy efficiency often comes with a price penalty, and in competitive industrial markets the extra cost can be enough to deter potential customers. Such has been the case with high-efficiency electric motors.

The motors, which have been available since the early 1980s, are 3 percentage points more efficient than their standard counterparts, but have to use low-silicon steels that increase the material content and raise the cost by 25-40 per cent. Equipment makers were rarely prepared to pay the premium.

But what if the same improvement in efficiency could be achieved without increasing the cost? This has been the aim - now achieved - of a four-year UK

government-backed research programme involving Brook Hansen, the electric motors producer that is part of BTR, European Electrical Steels and teams from Cambridge and Sheffield universities.

A 3 percentage point improvement in efficiency does not sound much when standard motors are already, typically, 90 per cent efficient, but it represents a 30 per cent reduction in losses.

With two-thirds of the electricity used by industry consumed by electric motors, it made sense, from

an environmental point of view, to develop high-efficiency motors that would be more commercially attractive.

Hence the £3m backing from the Department of the Environment's energy-efficiency best practice programme - one third of the research project's £12m cost.

Key to the success of the programme has been a new electrical steel, marketed by EES as Polycor 420-50. Its basic magnetic properties have been improved by about 15 per cent compared with the best steel grade then in use for

these types of motors.

Additional improvements have come from better thermal and aerodynamic design, reduced seal losses, more standard parts and reorganised manufacturing.

The new Brook Hansen W motor was first launched in 1993, and is currently offered in an output range from 2.2kW to 22kW - although motors up to 185kW already share some of the range's characteristics.

The motors could cut UK industry's electricity costs by at least £80m a year and reduce carbon dioxide emissions from power stations by 2.5m tonnes a year, backers say.

Andrew Baxter

Viewpoint • By Terry Thomas

## Ecology as a carrot not a stick

Industrialists should wake up to the benefits of sustainable development

A fundamental misconception persists among some UK industrialists that addressing environmental issues will damage only the British economy and will cost jobs. This, I believe, must be challenged.

Just a few weeks ago, for example, the representative bodies of a number of industrial sectors persuaded the UK government to delay implementation of new solvent emission rules.

The whole episode is reminiscent of 1991, when the British casting industry issued dire warnings that proposed emission controls would have a severe impact on competitiveness. But subsequent studies found that foundries have made big savings and realised improvements in product quality by switching from alcohol-based to water-based processes. The imperative for sustainable development has yet to penetrate some business people's consciousness.

In the past, the Co-operative Bank has also tended to use sticks to influence certain potential business customers rather than incentives, and in accordance with the wishes of our personal customers we have refused to provide some companies with financial services. In future, we will be complementing this approach with carrots, such as our National Centre for Business and Ecology. The centre, launched last week by Tony Blair, the leader of the Labour party, is bringing together the knowledge and expertise of some of the UK's top universities (University of Manchester, University of Salford, Manchester Metropolitan University and Umlist).

It will offer high-quality advice at a reasonable cost to help business customers maximise the

opportunities available to them - for example, providing cost savings from energy efficiency and waste minimisation; ensuring legislative compliance so no fines are charged or pollution officers come knocking on the door; and, importantly, to help them develop ecologically sound products which can be sold at a premium.

Quite simply our job is to reduce the cost of our customers' processing and production costs and increase the revenue obtained from the new products they then produce. One of the centre's first clients was Accent Doors, a metal door manufacturer, which wished to pursue a zero emission standard for solvent emissions in its paint shop. The motivation is to remove potentially carcinogenic chemicals and help to gain the company a competitive edge in world markets. Rather than fighting higher

**Production of waste and pollution indicates inefficiencies in the industrial process**

standards, like some of their industry colleagues, they recognise that production of waste and pollution indicates inefficiencies in the industrial process.

These types of improvements not only save business money but also create new environmental industries. And here there is some positive news: the UK has a £500m trade surplus in environmental products and services. The growth rate in the sector has been three times greater than that of the UK manufacturing industry in general.

But the government must offer stronger non-monetary incentives to business if it wants UK plc to do better. Companies in countries such as Japan and Germany are winning the environmental race because their governments are giving them strong backing.

Germany's support for environmental industries includes a foreign aid programme with environmental aid accounting for more than 25 per cent of expenditure. Japan's support for environmental industries includes

a tax incentive for investments in pollution control equipment as well as tax credits to support environmental research and development. The US commitment to environmental industries includes around \$1bn (£500m) in export support.

Contaminated land is an area I would particularly like to see the government address. I propose it should develop a certification system whereby measures resulting in the clean-up of contaminated land are formally acknowledged. A developer would pay to have a contaminated site analysed - a task that could be outsourced to universities - and receive suitable certification. Later clean-up activities could also be acknowledged and the land awarded a more favourable grade. On a subsequent certificate the developer would then be in a position to sell this improved land, perhaps with incentives from government, such as exemption from the capital gains payable.

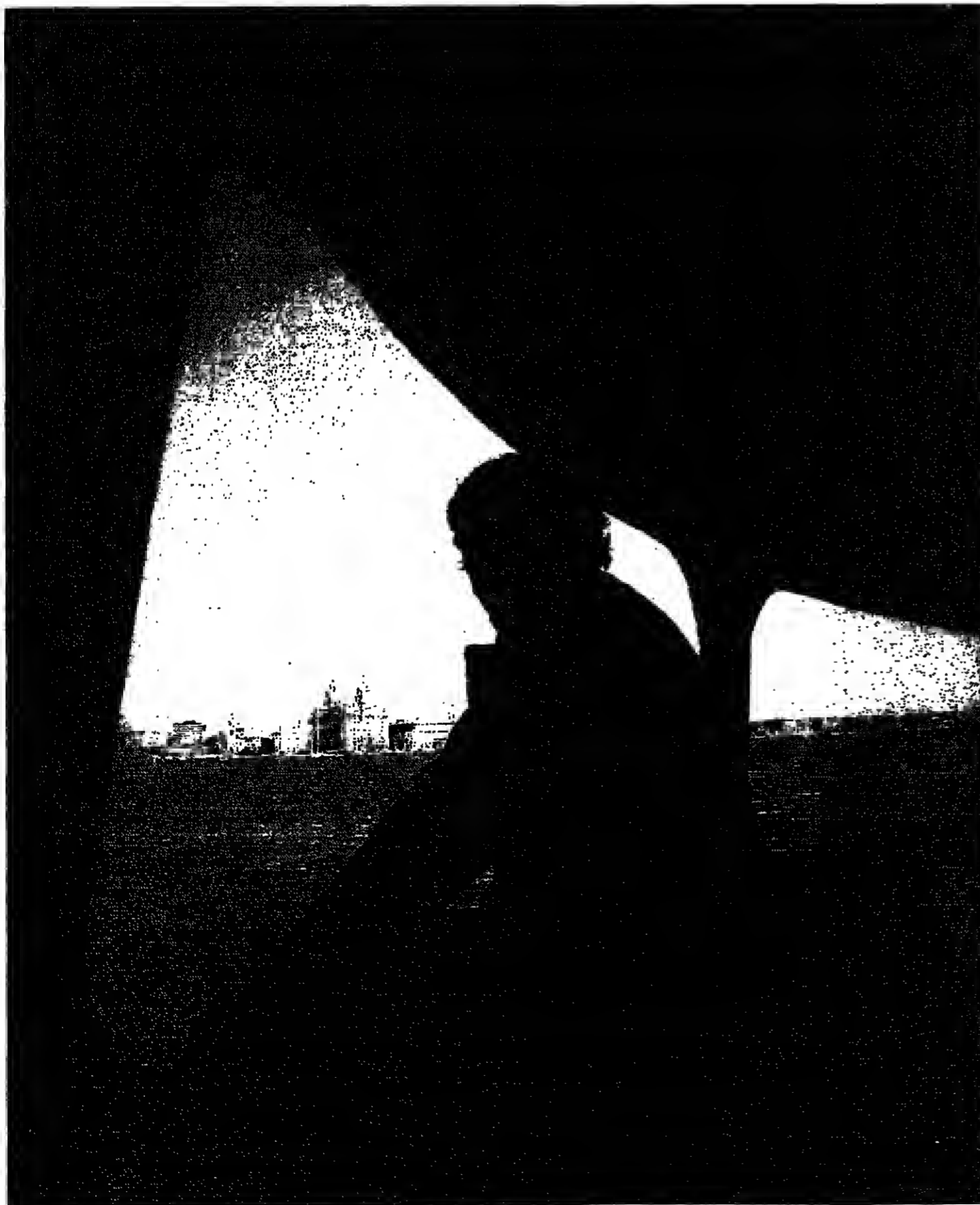
But few developers are going to purchase and attempt to clean up land if they are forced to assume liability for all previous activities leading to that contamination. Therefore, a line would be drawn under previous use of the site and future liability would be restricted to the last certificate issued.

In this way, the private sector could be encouraged to bring derelict land back into productive use and relieve pressure on our greenfield sites.

This particular "carrot" would not cost the Treasury anything as the land would otherwise not be developed and no capital gains tax would have been payable.

Contaminated land is just one area in which government could provide powerful incentives for business. Even without these, the shrewd business person will be making their business more aware of the demands of sustainable development, while identifying the new markets and the new profit opportunities.

*The author is managing director of Co-operative Bank. For details of the activities of the bank's National Centre for Business and Ecology, contact Paul Monaghan, ecology unit manager, on 0161 829 5461.*



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ARTS

Television in Russia

# Come on down, Mr Yakubovich

To see how dramatically Russia has changed since the collapse of the Soviet Union, all it takes is a twist of the television dial. The mind-numbing programmes of happy milkmaids singing folk melodies and soporific news readers giving daily reports on the progress of international communism have given way to western-style sitcoms and game-shows, hard-hitting news programmes and glossy advertisements for imported consumer goods.

Foreign productions have been an immediate hit in a country which, for most of its history, has been cut off from the rest of the world. Melodramatic Latin American soap operas have been especially popular. In the first, glitzy years of open airwaves Russia was so obsessed with these chronicles of sex, love and money that cabinet ministers would interrupt meetings to catch the latest episodes and crowds eager to know the next twist in the tale mobbed the Mexican ambassador whenever he ventured on to the streets of Moscow.

But, with remarkable alacrity, the Russian television industry has shed its Soviet shell and begun to

produce local programmes of western quality. On the news front, Russia's ground-breaking programme is *Izlogi* (Conclusions), the flagship weekly news show of NTV, the only national independent television station. The Kremlin, which has adapted to political pluralism less enthusiastically than Russian television audiences, has periodically threatened to shut down NTV and tried to intimidate Most Bank, its proprietor.

Watching this week's show, it is not hard to understand the government's pique. In contrast with the neutral tone and carefully balanced reporting which western news broadcasts aim for, watching *Izlogi* is like having a conversation with a Moscow intellectual. It is highly informed, loves conspiracy theories and is profoundly sceptical about the ability of the government to do anything right.

Consider this week's report from

Chechnya, a conflict which NTV has covered with unrivalled courage. The clear target of this week's broadcast was General Pavel Grachev, the minister of defence. By jumping back and forth between a self-assured Grachev speaking at a press conference and directly contradictory footage from the battle lines, *Izlogi* presented the minister in the worst possible light. It then drove the point home with interviews with unnamed soldiers and officers in Chechnya who gave examples of what one officer called "the complete disorganisation of the army" and, in the words of an unhappy recruit, opined that "we should not be here at all".

Some of NTV's fans and reporters, are worried that the unexpected decision this week of Igor Malashenko, the station's chief executive, to join Russian president Boris Yeltsin's re-election committee could bring an end to this sort

of critical reporting. That would be a shame, because the powers that be already have a mouthpiece in the form of ORT, one of two nationwide, state-controlled channels.

ORT's weekly wrap-up programme, *Sunday*, is living proof of how much NTV stands to lose if it begins to give in to the Kremlin diktat. This week *Sunday* led with a piece recounting the historic evils of communism, featuring graphic footage of Stalin's gulags and the artificial famine in Ukraine. Five years ago, a programme like this would have been a brave example of perestroika. But, less than three months before presidential elections in which Yeltsin's strongest challenger is communist leader Gennady Zyuganov, it looked more like negative political advertising.

For western Kremlin-watchers, news programmes like *Izlogi* and *Sunday* are still one of the best measures of Russia's progress

towards an open, democratic society. But the public, which was addicted to news broadcasts when the Iron curtain first began to creep up in the 1980s, has lost interest.

Television ratings show that Russians want gentle entertainment, and the programme that delivers it best is *Field of Dreams* the country's most popular weekly. *Field of Dreams* is Russia's version of the American *Wheel of Fortune*: contestants try to guess mystery words in order to win prizes.

But this standard western game-show format is animated by distinctively Russian touches. This week, for example, Leonid Yakubovich, the moustachioed, rotund host, asked Irina, a young female contestant, if she had a husband or boyfriend. When Irina said she did not, Yakubovich turned to the camera and furiously berated the mentalk of Liskova, Irina's village, for letting such a pretty flower go

unpicked. "What's wrong with you, you men of Liskova, are you all sick in the head?" Yakubovich thundered.

He also occasionally indulges in a subtle penchant for political commentary. As he chats with his contestants, he never misses an opportunity to point out how anarchic and poorly managed Russia has become. If the Kremlin watchdogs are really serious about ensuring that Yeltsin gets an easy ride on the screens of the nation, they would be well-advised to have a word with Russia's most popular TV personality, the quietly subversive Yakubovich.

A newer game-show gives an even clearer impression of the over-riding obsession of Russians today. *Money, Money, Money!* is a programme devoted to explaining the dizzying variety of new financial instruments available in Russia's wild new market economy.

This week's show was devoted to promissory notes - not normal daytime television fare in the west. Three contestants tried to make as much money as possible by choosing between investments in various promissory notes and bonds. To make the competition authentic, some of the notes turned out to be fraudulent, leaving the unlucky investor without a kopeck.

*Money, Money, Money!*'s assumption that no one can be trusted and the unwary risk being duped out of their savings is the explanation for the most unusual offering on Russian television this week: an advertisement taken out by the US government.

This week the US is introducing new \$100 banknotes. The transition has been uneventful in the US, but American and local authorities are worried that in Russia, the largest foreign holder of US currency, it could trigger a run on the banks as people scurry to exchange their old bills for new ones. So, in the clearest sign yet that the cold war is over, dozens of times a day a gentle voice reassures Russian viewers that they will never, ever be deceived by the US Treasury.

Christia Freeland

## La Scala on the move

Theatre alla Scala, Milan's world-famous opera and ballet company, is to move to a new theatre in the old industrial district of northern Milan from 1999 while work is carried out on its neoclassical home in the city centre.

The season of opera, ballet and concerts will return to its 200-year-old base in December 2001, and leave Milan with a new space for the arts.

The new theatre should allow Milan to host more touring productions. Announcing the move yesterday, Carlo Fontana, La Scala's director, said it would also become the venue for "the popular side of La Scala".

The design of the new theatre should be approved in June, as part of Italian architect Vittorio Gregotti's overall plan for the renewal of Milan's Bicocca industrial district. The theatre will cost £170m (£113.5m) to build, but the total cost of the project will depend on La Scala's requirements for fitting out the interior.

La Scala is expected to spend about £70m enlarging and improving the stage and backstage area of its headquarters. The 2,800-seat theatre was rebuilt and restored in 1946, after it was nearly destroyed by allied bombs during the second world war. The stage area, however, has not been properly updated since 1978, when the theatre was restructured by Giuseppe Piermarini. The work should increase the theatre's capacity and give the company more flexibility to stage complex productions in quick succession.

The Bicocca project, co-ordinated by Milano Centrale, a subsidiary of the Pirelli tyre and cables group, is one of Italy's most ambitious urban renewal programmes, combining university buildings, research, business and residential developments.

Before the new theatre is opened, public transport links will be built to join the area to the city centre and the underground railway network, city authorities said yesterday.

Andrew Hill



Best Actress: Susan Sarandon in 'Dead Man Walking', to be released in Britain this week

## Offbeat roles win the Oscars

Nigel Andrews on the awards in which the US reclaimed the acting honours

We feared that a ban on British film would be enforced at this year's Academy Awards and we were right. After years of Angliophilla, Sir Anthony Hopkins, Emma Thompson and Kate Winslet had to stand aside as the acting honours were taken by Americans in downbeat or offbeat roles.

A drunk (Nicolas Cage), a nun (Susan Sarandon), a prostitute (Mira Sorvino) and a psychopath (Kevin Spacey) won the iron-of-camera statuettes, while an Americanised Australian film about a Scotsman, Mel Gibson's cheerful, loose-with-history account of Wil-

liam Wallace, *Braveheart*, took Best Picture and Best Director. Cage and Sarandon were worthy winners for *Leaving Las Vegas* and *Dead Man Walking*, though their awards reaffirmed the academy practice of honouring low-key or discordant movies in the acting category while favouring triumphalism for the top movie awards. It is heartening, nonetheless, to see Oscar attention lavished on a \$5m film about suicide in *Sin City* and a scarcely costlier docudrama about death on *Death Row*.

Barney was consoled with a prize to Nick Park, for animating Wallace and Gromit, and a Best Adapted Screenplay prize

for Emma Stone and *Sensibility* Thompson. It was the only Jane Austen Oscar on the evening.

Elsewhere it was a night to remember. Indeed, one could not forget it if one tried: the song-and-dance numbers that seemed designed by some window-dresser from hell, the frequent and unnerving early hints that *Babe* would be the Academy's 1996 favourite (including a satellite link-up between the piglet and compere Whoopi Goldberg) and the herculean incomprehensibility of the more ornate speeches.

Sidney Poitier was chosen to present the Best Picture award, possibly in deference to

the demonstration outside the theatre against Hollywood's unequal treatment of blacks. (There was one nomination for them, someone calculated, out of 166 for whites.) "Through passages of the mind and down rivers of the heart..." Poitier unfurled in his most resonant voice, before losing his audience in the hinterland of this complex metaphysical map.

At the other, preferable extreme were the celebrities who could barely talk at all. Kirk Douglas, honoured for his lifetime, thanked the Academy through a face part-paralysed by a recent stroke. And Christopher Reeve - in a *deus ex machina* production coup that

won a standing ovation - was revealed behind a rising screen, Superman bound to his eternal wheelchair.

I have no idea why Reeve was there, though he introduced a brief film collage featuring disadvantaged movie characters. But his appearance and brief, dignified speech said just about everything about the Oscars. To bring him on at all was a piece of shameless emotional exploitation. At the same time it made us recognise the thread by which success hangs in this unforgiving industry, which sets aside just one night a year to commemorate its more colourful casualties.

Bolger's writing is - as usual - a heightened, poetic version of naturalism, which Jim O'Hanlon's largely realistic direction does not always accommodate. It takes more than a lighting change to cater for the artifice of Anna's soliloquies as she packs in the bedroom while Paul and Anna Farrel's dilemma are the arrangement of an English daughter Jeanie (who never appears), and the punishment of Paul's colleague, the suave and insinuating Kevin Redmond, who may have raped her.

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Christopher Dunne, as Paul Farrell, dominated alternately by his wife and his subordinate, gives a performance of plausible spinelessness in which even his outbursts are ultimately ineffectual; Shortt is every inch the fiery Irish wife and mother. John Gunnery seems at times conscious that he is palpatly too young to play 50-year-old Redmond but is adroit at the character's smiling villainy.

The play is, of course, finely written and thought-provoking in several areas but a feeling persists that both writer and director could have done with striking the dramatic fire a little higher.

At BAC, London SW11, until April 4 (0171-223 2223).

**INTERNATIONAL ARTS GUIDE**

**AMSTERDAM**

**AUCTION**  
Christies Amsterdam  
Tel: 31-20-5755255  
● 20th Century Decorative Arts and Antique Furniture: highlights of the sale include glass designs by A.D. Copier, posters by Toorop, a chair designed by Rietveld, five pieces of furniture by Carlo Bugatti, and four "verres églomisés" by Jones Zeuner, 10.30am & 2pm; Mar 28

**CONCERT**  
Concertgebouw  
Tel: 31-20-5730573  
● Koninklijk Concertgebouworkest with conductor Reinbert de Leeuw and pianist Marja Bon perform works by Ford, Sorabjan, De Vries, Messiaen and Yun; 8.15pm; Mar 28

**BERLIN**

**OPERA**  
Deutsche Oper Berlin  
Tel: 49-30-3438401  
● Die Zauberflöte; by Mozart. Conducted by Hans Martin Rabenstein and performed by the

Deutsche Oper Berlin. Soloists include Blank, McCarthy, Rundgren and Feldhoff; 7.30pm; Mar 29

**BONN**

**OPERA**  
Oper der Stadt Bonn  
Tel: 49-228-7281  
● Queen of Spades; by Tchaikovsky. Conducted by Alexander Lazarev and performed by the Oper Bonn. Soloists include S.M. Shpresa, L. Schewtchenko, D. Jugovic and L. Naviglio; 8pm; Mar 28; Apr 2

**BRUSSELS**

**EXHIBITION**  
Le Botanique Tel: 32-2-2183732  
● Ce tourné depuis Cent Ans, une Histoire du Cinéma Francophone de Belgique: in film's 100th year, this exhibition focuses on the history of the cinema in Wallonia; from Mar 28 to Jun 23

**COPENHAGEN**

**OPERA**  
Det Kongelige Teater  
Tel: 45-33 14 10 02  
● Madame Butterfly; by Puccini. Conducted by Paolo Olmi and performed by the Royal Danish Opera. Soloists include Gitta-Maria Sjoberg and César Hernández; 8pm; Mar 29

**DRESDEN**

**CONCERT**  
Sächsische Staatsoper Dresden  
Tel: 49-351-491110  
● Symphony No. 9; by Beethoven. Performed by the Sächsische

Staatskapelle Dresden with conductor Giuseppe Sinopoli. Soloists include soprano Solveig Kringsborn, alto Florence Quivar, tenor Uwe Hellman and baritone Alan Tirus; 8pm; Mar 31; Apr 1

**LEIPZIG**

**OPERA**  
Oper Leipzig Tel: 49-341-1281261  
● Katya Kabanova; by Janacek. Conducted by Jiri Kout and performed by the Oper Leipzig. Soloists include Julia, Bartha, Helfrich, Hanz, Chmiel, Kunder, Gentile, Schörner and Chol; 7.30pm; Mar 29

**LISBON**

**CONCERT**  
Grande Auditório da Fundação Gulbenkian Tel: 351-1-7935131  
● Matthäus Passion; by J.S. Bach. Conducted by Frans Brüggen and performed by the Orchestra of the Eighteenth Century; 8.30pm; Mar 28, 29 (8.30pm)

**LONDON**

**AUCTION**  
Christies South Kensington  
Tel: 45-33 14 10 02  
● 20th Century Continental Decorative Arts: highlights of the sale include a selection of Daum, Gallé and Loetz glass. Also on sale are several pieces of Hungarian pottery by Zsolnay Pecs; 1pm; Mar 29

**CONCERT**  
Barbican Hall Tel: 44-171-6388891  
● The London Symphony Orchestra; with conductor Daniele Gatti perform Mozart's Symphony

No.40 in G minor, K550 and Bruckner's Symphony No.3; 7.30pm; Mar 28  
Royal Albert Hall  
Tel: 44-171-5893212  
● Classical Spectacular: a programme of classical hits performed by the Royal Philharmonic Concert Orchestra with conductor Anthony Inglis, tenor Bonaventura Bottono, baritone Mark Holland, the London Choral Society, the Band of the Scots Guards, the Band of the Welsh Guards and the Muskets and Cannons of the Sealed Knot. The programme includes O Fortuna from Carmina Burana, the Swan Lake Finale, the Pearl Fishers Duet, Bolero and the 1812 Overture with live cannons and muskets; 7.30pm; Mar 28, 29, 30 (also 3pm), 31 (also 3pm)  
Royal Festival Hall  
Tel: 44-171-9604242  
● The London Philharmonic; with conductor Mariss Jansons and pianist Dmitri Alexeev perform works by Rachmaninov and Shostakovich; 7.30pm; Mar 28

**LUCERNE**

**CONCERT**  
Jesuitkirche Tel: 41-41-2103562  
● Johannes Passion; by J.S. Bach. Performed by La Petite Bande, conducted by Sigiswald Kuijken. Soloists include Dorothea Röschmann, Andreas Scholl, Christoph Prégardien and Werner Van Mechelen; 7.30pm; Mar 28

**NEW YORK**

**CONCERT**  
BergeMusic Tel: 1-718-624-4061  
● Ruth Laredo, Christian Bor,

Toby Hoffmann and David Jolley; the pianist, violinist, viola-player and horn-player perform R. Schumann's Adagio and Allegro for Horn and Piano, Op.70 and Märchenbilder for Viola and Piano Op.113, and Brahms' Trio for Violin, Horn and Piano in E flat major, Op.40; 7.30pm; Mar 28, 31 (4pm)  
The Metropolitan Museum of Art  
Tel: 1-212-879-5500  
● Beaux Arts Trio; perform works by Hummel, Arensky and Brahms; 8pm; Mar 29, 30  
EXHIBITION  
The Metropolitan Museum of Art  
Tel: 1-212-879-5500  
● Poussin: Works on Paper. Drawings from the Collection of Her Majesty Queen Elizabeth II: the Royal Collection at Windsor holds one of the largest groups of drawings by the 17th-century French artist Nicolas Poussin (1594-1665). These drawings were originally mounted in two albums that were assembled during the artist's lifetime by his patrons Cardinal Camillo Massimo and Cassiano dal Pozzo. A group of 65 works, many double-sided, comprising almost all the autograph drawings in the collection, has been selected for this exhibition; 10 Mar 31

**OSLO**

**CONCERT**  
Oslo Konserthus  
Tel: 47-22-834510  
● Oslo Filharmoniske Orkester; with conductor Jesus Lopez-Cobos and the Filharmoniens Kammerkor perform Corigliano's Symphony No.1 and Mozart's Mass in C minor. Soloists include Malin Hartelius, Kristina Hammarström, Mathias

Zachariassen and Peter Harvey; 7.30pm; Mar 28, 29

**PARIS**

**CONCERT**  
Théâtre des Champs-Élysées  
Tel: 33-1 49 52 50 50  
● Wiener Philharmoniker; with conductor Pierre Boulez perform Haydn's Symphony No.104 (London) and Mahler's Symphony No.5; 8.30pm; Mar 28  
OPERA  
L'Opéra de Paris Bastille  
Tel: 33-1 44 73 13 99  
● Faust; by Gounod. Conducted by Yves Abel and performed by the Opéra National de Paris. Soloists include Marcello Giordani, Willard White, Jeffrey Black and Renée Fleming; 7.30pm; Mar 28, 31 (3pm)

**STRASBOURG**

**CONCERT**  
Palais de la Musique et des Congrès Tel: 33-83 37 67 67  
● Bolshoi Orchestra; with conductor Alexander Lazarev and cellist Alexander Rudin perform works by Dvorak and Shostakovich; 8.30pm; Mar 28

**VIENNA**

**OPERA**  
Wiener Staatsoper  
Tel: 43-1-514442960  
● Aida; by Verdi. Conducted by Jun Märkl and performed by the Wiener Staatsoper. Soloists include Dolores Zajack, Julia Faulkner, Goran Simic and Kurt Fydl; 7pm; Mar 28, 31 (6pm)

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Financial Times Business Tonight

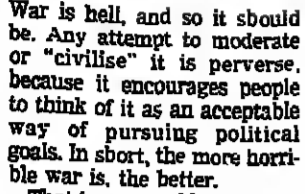


## COMMENT &amp; ANALYSIS

Edward Mortimer

## Mutilation machine

Landmines kill and maim children but, concludes an expert study, they have never yet stopped an advancing enemy



War is hell, and so it should be. Any attempt to moderate or "civilise" it is perverse, because it encourages people to think of it as an acceptable way of pursuing political goals. In short, the more horrible war is, the better.

That is a very old argument, which enables pacifists to support nuclear weapons, or rather enables nuclear deterrence theorists to proclaim themselves pacifists. But it becomes especially grotesque when applied to anti-personnel (AP) mines.

The effects of these are amply documented. War surgeons working with the International Red Cross describe mine injuries as among the most horrific they regularly encounter. The effect is usually death or permanent mutilation: and "the very mechanism of wounding by pressure-activated mines embedded in the earth ensures maximum foreign-object contamination in the wound".

That should be quite a powerful deterrent. But one thing landmines clearly do not deter (unlike nuclear weapons) is their own use. The US state department estimates there are currently about 84m unexploded landmines spread around 64 countries. UN mine clearers removed some 85,000 during 1994, while something between 2m and 5m new ones were laid.

Those weapons have already been "used". Even the people who put them there would have great difficulty in removing them, as, in most cases, they are neither adequately marked nor mapped. They are sitting there in the ground, waiting for someone to step on them. Every month, some 2,000 people do so.

One in every 236 Cambodians has had a limb amputated; one in 470 Angolans; one in 650 Somalis. (For comparison, in the US, where no landmines have been laid, the figure is one in 22,000.) Many of the victims are children. Almost all are civilians.

Paradoxically, this very fact

may explain the lack of deterrent effect. Landmines are laid by armed forces, regular or irregular. And armed forces, while not immune from their effects, are much less vulnerable than the civilian population. That is one of the findings of a study to be published tomorrow by the International Committee of the Red Cross, which breaks new ground by setting out to analyse the military use and effectiveness of AP mines, as well as their humanitarian consequences.

Up to now, military establishments in almost all countries have opposed a ban on landmines, arguing they are essential defensive weapons whose military value outweighs their human costs. Yet, it seems, this alleged military value has never before been systematically analysed. That is the gap which the author of the study, Brig Patrick Blagden, has sought to fill.

Blagden gained practical experience of the problem during a career in combat engineering and weapons research with the British army, and, more recently, as senior demining adviser to the UN department of peacekeeping operations. His conclusions are endorsed by nine other senior officers from western and non-aligned countries.

They are quite emphatic: "No case was found in which the use of anti-personnel

mines played a major role in determining the outcome of a conflict." At best, they act as delaying elements, but they "have never yet stopped an advancing enemy".

Thus soldiers seem to be almost as much at risk from their own mines as from those of the enemy. When determined to advance, they do so, being equipped and trained to cope with the risks involved. It is civilians, trying to resume their normal lives long after the conflict has passed on, who are the main victims.

Western governments disclaim responsibility, claiming only to commission mines with "self-destruct" fuses, and not to permit exports even of these. The study casts doubt on both arguments. Mines that are supposed to self-destruct often fail to do so. Efforts to define self-destruct mines as "lawful", while banning cheaper ones, are counterproductive because they sound to poor countries like yet another "double standard".

Export controls are easily evaded. Manufacturers need to evade them in order to dispose of surplus stocks and cover design and production costs. Almost all mines used by warlords and irregular forces around the world originate from major manufacturing countries.

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## LETTERS TO THE EDITOR

Number One Southwark Bridge, London SE1 9HL

We are keen to encourage letters from readers around the world. Letters may be faxed to +44 171-873 5938 (please set fax to "fine"), e-mail: letters.editor@ft.com. Translation may be available for letters written in the main international languages.

## BSE: look to the wider industry to pay for the beef debacle

From Mr Roland Davis.

Sir: The gathering opinion that deregulation was at fault for the BSE crisis is dangerously misguided.

The theory of deregulation is that, if an industry is held responsible for its actions, then it will act responsibly and government can safely withdraw. Why did the beef industry not act responsibly? It is not enough to say that it thought the danger was small.

An airline thinks the danger of short-cutting maintenance procedures is small but does not succumb to temptation. The difference is that, if a cavalier airline loses customer confidence and goes bankrupt, it takes responsibility. On the other hand, the beef industry took the view that, if the odds turned out against it, the government would bail it out. Sadly, it may have been right. If so, producers will know for the future that their incentive is to behave irresponsibly, and we must expect them to do so for a long time to come.

Roland Davis, Wayside House, High Street, Shoreham, Kent, UK

From Mrs S.A. Wood.

Sir: Is BSE the government's fault? It was not the government that sold animal feedstock which was contaminated. It was not the government that refused to tell livestock farmers what was in the feed marketed, nor was the government that profited from the sale. It was not the government that concealed the disease in cows going to the market, nor the government that floored slaughterhouse regulations.

If the government pays, we, the public who have been put at risk, foot the bill. If sale of feed had been a retail sale, it would have fallen under the Sale of Goods Act and also the EU directive which imposes strict liability on the producer for damage caused by the product. Why is the public going to pay, why not those whose pursuit of commercial profit caused the problem? Is it that, once again, the deepest purse is pursued, not the guilty or negligent?

The government makes regulations to safeguard public health, but whose responsibility is it and who should pay?

S.A. Wood, Cocksfoot Farm, West Wycombe, Bucks HP14 3AR, UK

From Mr Paul A. Hendrick.

Sir: In most consumer goods industries, companies supplying products which kill or seriously injure their customers suffer from both consequential loss of trade and from substantial claims from their victims. Their only hope of compensation is by way of a claim against their own suppliers for defective raw materials.

In the topsy-turvy world of the agricultural industry, however, it is the victim who pays the manufacturer (by way of subsidy financed through the tax system) for the consequential loss. He himself receives nothing. And what is heard of the suppliers of defective raw materials, the large animal feed suppliers?

Pete Moss, 11 rue Deterlin, 67100 Strasbourg, France

From Mr Clive Evers.

Sir: As the organisation that offers support and information to the families of people with Creutzfeldt-Jakob disease, we are appalled by the prospect of

who had the bright idea of supplying sheep's brains to herbivores? Not a whisper.

Paul A. Hendrick, 14 Park Crescent, London N3 2NJ, UK

From Mr S.J. Noble.

Sir: In your article "The death of British beef" (March 25) you suggest that one result of the calamity "is that people will start to look more closely at how food is produced".

Yet a few weeks ago, you deprecated the idea of any wider application of regional quality marks which also control production methods on

an epidemic of infected people.

Professor John Pattison, chairman of SEAC, the government-appointed expert committee on BSE, says that up to 500,000 people may have been infected before the hovine offal ban in 1989 ("Mad cow disease linked to humans", March 21).

The government failed to act at the earliest possible opportunity to put sufficient funds into research. It is essential we know how this disease develops in humans and to what extent it can be passed from person to person. We are concerned there are few facilities in the UK to

proficient to identify it.

The most important question MAFF should ask is: "If this new strain of CJD is believed to be linked to BSE, then what was responsible for the outbreak of the original variant of the disease if it was not BSE?"

Rupert Pushman, 11 Crossborough Hill, Basingstoke, Hants, UK

From Dr Ornella Moscacci.

Sir: Given the uncertainties that still cloud our understanding of BSE and its transmission, it seems premature to draw up a list of the companies that stand to win or lose from the current beef scare (Lex, March 23).

If the animal-feed hypothesis is correct, then it is worth pointing out that the use of animal feeds in cattle was banned in 1988, but it was not until last week that the ban was extended to all other farm animals. It has been claimed that BSE can jump other species barriers, affecting not only human beings but also cats and zoo animals; the suspicion must thus be that BSE might be transmitted to pigs and chickens as well.

On the other hand, it has also been claimed that most of the cases of BSE to date have occurred in dairy herds, which are not slaughtered for beef.

White meat producers have so far benefited from the furor over beef. They may yet prove vulnerable to sudden shocks if the belief that cheese, pork and chicken are safer to eat than beef turns out to be unfounded.

Ornella Moscacci, 32 Seymour Walk, London SW10 5NF, UK

From Professor R.A. Weale.

Sir: Joe Rogaly's penetrating analysis of UK health secretary Stephen Dorrell's discomfiture ("What is Mr Dorrell for?", March 22/24) makes interesting reading but seems to confuse the scientists' function in the decision-making process of the body politic. What needs emphasising is that scientists offer odds whereas politicians seek certainty. This distorts the scientific message. If politicians were remotely numerate, the question of trust would not arise. In any case, this is determined by the scientists' peers who vet results prior to publication (unpublished results are not worth the paper they are not written on).

Furthermore, Mr Rogaly's quest for the "grail of harmlessness" is unrealistic: negatives cannot be proved. It is noteworthy that even the quality press argues from hindsight. How many investigative journalists discovered what foodstuffs cattle were being fed under both Conservative and Labour governments and blew the whistle? If more time were devoted to uncovering the adulteration of food rather than adultery, everyone might be better off. Science is in its place, but is the press?

R.A. Weale, Age Concern Institute of Gerontology, King's College London, Waterloo Road, London SE1 8WA, UK

Clive Evers, chairman, Creutzfeldt-Jakob Support Network, Gordon House, 10 Greenoak Place, London SW1P 1PH, UK

From Mr Rupert Pushman.

Sir: I am dismayed by the way the Ministry of Agriculture, Fisheries and Food has handled the present situation regarding British beef. The scientific report on which MAFF has based its statement raises a number of questions but provides no real answers.

I shall continue to eat British beef because I believe it to be totally safe. My arguments for continuing to do so are threefold. First, even if we are to believe the latest medical research, the incubation period for this new variant of Creutzfeldt-Jakob disease is 10-50 years. So, if we already have the disease, there is no point in worrying.

Second, the size of the sample population in the report is too small to find a conclusive and accurate picture. The victims' deaths might be due to any number of factors apart from CJD. Third, government scientific advisers have been quoted as saying they "have not seen this strain of CJD before". So what? CJD may have existed in beef and humans for thousands of years, yet we may only recently have become technically

Nato plans. Why encourage their politicians to feed off the issue?

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Ian Elliott, Chasely, Coggers Lane, Hathersage, Sheffield, S30 1AL, UK

From Mr Anthony Hill.

Sir: Your article "Business spurs all-American trade deal" (World Trade News, March 22) is incomplete without mention of this.

There is also a Central American regional trade grouping.

The Caribbean/United States Business Council, which provides a forum for the region's private sector, will be meeting in Kingston, Jamaica.

Anthony Hill, permanent representative, Permanent Mission of Jamaica, 36 rue de Lansanne, 1201 Geneva, Switzerland

From Mr Anthony Hill.

Sir: The Caribbean Community of 14 member states (which includes Antigua and Barbuda; the Bahamas; Barbados; Belize; Dominica; Grenada; Guyana; Jamaica; Montserrat; St Kitts and Nevis; Saint Lucia; St Vincent and the Grenadines; Trinidad and Tobago; and Surinam) is among the regions within the Americas participating actively in the discussions on a free

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## ADVERTISEMENT

## REVIEW

## Applause, Applause

Anyone can win over a tough audience, says hailed speechwriter. Just ask Lee Iacocca.



**THE AMERICAN SPEAKER**  
Your Guide to Successful Speaking  
Ann Bakshian, Jr., Editor (600 pages);  
Georgetown Publishing House

By Len Tawlor

The difference between success and failure, writes Ann Bakshian, Jr., in this remarkable new resource for public speakers, is the ability to communicate clearly and effectively. Never has this been more true than in today's intensely competitive business climate.

Bakshian should know. Speechwriter to "The Great Communicator" himself, Ronald Reagan, as well as to two other former presidents and the heads of several major corporations, Bakshian has witnessed the rise and fall of international leaders based on their ease—or lack of ease—on the podium. Anyone can master the art of speaking in public, Bakshian says. "In the last analysis, the spoken word is still king."

Fear and leathery of the rubber chicken circuit have long plagued public figures. "No one knows how I hate making speeches," President Calvin Coolidge once complained to a friend.

Bakshian tackles head-on the challenges of public speaking in *AMERICAN SPEAKER*. "As with alcoholism," he writes, "there is no known cure for stage fright. You're either a chronic sufferer or a recovering sufferer." In either case, it's easy to minimize that suffering—or even turn it into an advantage. As Carroll O'Connor, the legendary "Archie Bunker," put it, "A professional actor has a kind of tension. The amateur is thrown by it, but the professional needs it."

Perhaps the best contemporary example is Lee Iacocca, who saved the Chrysler Corporation by using his enormous talent as a speaker to win the support of the Congress, the White House and the American people for the biggest corporate bailout in history. Iacocca himself attributes his business success to speaking. In his autobiography, he writes: "I've seen a lot of guys who are smarter than I am and a lot who know more about cars. And yet I've lost them in the smoke. Why? Because I'm tough? No... You've got to know how to talk to them, plain and simple."

Business is the single biggest rhetorical arena. From simple retail sales spiels to sensitive boardroom presentations, speech keeps the wheels of commerce turning. In making a first impression, Bakshian writes, "Your appearance can raise expectations, but what you say and how you say it will determine how people evaluate you." A good speaker is always in demand. At events from business conventions to weddings, "a good speaker not only adds to the occasion, he also benefits from 'free advertising' that adds to his stature in the community and attracts future business."

Unusual for a book or periodical of any kind, *AMERICAN SPEAKER* is more of a personal mentor—a do-it-yourself guide designed to save hours or days of preparation time, or, conversely, an enormous bill from a professional speechwriter or "coach."

It's a clever, accessible concept: a three-ring binder crammed with hundreds of pages of material on every imaginable aspect of public address: body language, delivering an inspiring eulogy, antidotes to nervousness, using humor, developing a powerful speaking voice, or engaging the audience in a positive question-and-answer session. Bakshian offers sensible, uplifting advice for every occasion, from the Thanksgiving toast to a defense of your industry before a hostile audience.

Arranged alphabetically, *AMERICAN SPEAKER* is easy to navigate, highly entertaining and loaded with good ideas. In the calendars section, for instance, Bakshian compiles thousands of speech pages for every day of the year in three calendars: celebrity birthdays, today in history and the months at a glance. "Every audience gathered to share a common interest or celebrate a specific occasion has a built-in common bond," Bakshian writes. "A good speaker doesn't just know this; a good speaker takes advantage of it." He demonstrates how a shared reference can warm up the audience, draw a favorable analogy or build a bridge from past to present.

What about actual speeches? They're all over *AMERICAN SPEAKER*. A section on acceptance speeches includes an example Winston Churchill's masterful appearance before Parliament in 1954, on the occasion of his 80th birthday. To illustrate the business address, Bakshian quotes nine speeches that used humor and anecdotes to deliver serious messages to several very different audiences. In the education section, Bakshian shows how cartoonist Garry Trudeau hilariously defused the "political correctness" time bomb in speaking to a graduating class at Yale University. And so on.

But here's what really makes *AMERICAN SPEAKER* stand out from the crowd of business publications. In addition to the basic 600-page volume, readers also receive timely updates, transcripts of recent, powerful speeches and a free consulting service with Bakshian, to resolve those last-minute speaking challenges. Best of all, the entire package is guaranteed. Review *AMERICAN SPEAKER* for 30 days. If it doesn't meet your expectations, return it to Georgetown Publishing House for a complete refund.

Few professionals can afford to ignore a promise like that. *AMERICAN SPEAKER* (\$297, including bimonthly updates) is not available in any bookstore. Copies are available only from Georgetown Publishing House.

To order, write to: Georgetown Publishing House, 1101 30th St., NW, Dept. 4RDE, Washington, DC 20007. Or call them at 800-915-0022—or, fax 202-337-1512.

## No time to read bumf

From Mrs M. Branstetter.

Sir: Mr Franco Cavallini (Letters, March 25) does not say whether the literature he sent had actually been requested by the recipients.

As a secretary in a specialist engineering company, I often have to deal with arrogant callers who, just because they have sent us literature—in many cases unasked for and therefore reclassified as "bumf"—believe they have a right of immediate access to the MD and, like Mr Cavallini, appear to resent speaking to a mere secretary.

Not much business courtesy there, I am afraid.

With so much literature being sent nowadays it is not surprising that hardly anyone finds the time to write polite thank you letters nor, I think, are these expected. If Mr Cavallini's recipients are really interested in his information, they will no doubt get in touch with him sooner or later.

M. Branstetter, 29 The Embankment, Bedford MK40 3PE, UK

## Involve Russia in European security plans

From Mr Ian Elliott.

Sir: As you say in your editorial "Nato's promises" (March 21), Nato may end up with the worst of all worlds. Even so, expanding Nato by one member would create further pressure from new applicants and perpetual tension with Russia.

Ordinary Russians have felt insecure since the break-up of the Soviet Union and embarrassed by their military incapacity. They could be forgiven for misconstruing

Nato plans. Why encourage their politicians to feed off the issue?

After the cold war, Nato policies were improvised and, seemingly, left to the experts, while politicians from all members have made free with our future. For example, you reported on February 20 (World Trade News "Slovenia reviews telecoms deal") that Mr Malcolm Rifkind, the foreign secretary, supported Slovenia's aspirations to join Nato and its chances would be boosted by choosing compatible telecoms systems!

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It is a complex situation, but there is time to straighten out Nato policy before it is too late.

By involving Russia constructively in the underlying problem of security guarantees in central and eastern Europe, Nato's role would become more positive without the risks of expanded membership.

Ian Elliott, Chasely, Coggers Lane, Hathersage, Sheffield, S30 1AL, UK

## Caribbean involved in free trade area talks

From Mr Anthony Hill.

Sir: The Caribbean Community of 14 member states (which includes Antigua and Barbuda; the Bahamas; Barbados; Belize; Dominica; Grenada; Guyana; Jamaica; Montserrat; St Kitts and Nevis; Saint Lucia; St Vincent and the Grenadines; Trinidad and Tobago; and Surinam) is among the regions within the Americas participating actively in the discussions on a free

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There is also a Central American regional trade grouping.



COMMENT & ANALYSIS

FINANCIAL TIMES

Number One Southwark Bridge, London SE1 9HL  
Tel: +44 171-873 3000 Telex: 922186 Fax: +44 171-407 5700  
Wednesday March 27 1996

# Mad cows and consumers

The menu of options for dealing with the economic consequences of the UK's outbreak of mad cow disease - or bovine spongiform encephalopathy - consists only of unpalatable items. But there do not seem to be either quick or cheap methods for restoring confidence in British beef: the world-wide bans on exports will not be rescinded; and even mass slaughter is unlikely to restore confidence. The least bad option seems to be ruthless enforcement of announced measures, with a view to eliminating BSE.

With hindsight, it is easy to see that the government was too complacent about the emergence of BSE in the 1980s. This complacency was partly explained by the costs to producers and the government of a more rigorous approach. But it was also explained by the belief that BSE was not linked to Creutzfeldt-Jakob disease (CJD), its human equivalent. Now, however, the possibility of such a link has been acknowledged - and the skies have fallen.

Even so, a few facts need to be remembered: identified cases of CJD have been below 55 in the UK in each of the last four years, with only 40 in 1995; the incidence of CJD is in line with international norms; the 10 cases of CJD in young people that may be linked to BSE represent only 0.00002 per cent of the population; the incidence of BSE has declined rapidly, from a peak of 36,681 in 1992 to 13,865 in 1995; and, by October 1995, there had been only one case in cattle born in 1993.

These facts are unlikely to assuage either the governments of the rest of the world or consumers, including British ones. The former have nothing to gain from allowing the import of questionable beef, however tiny the question against it may be. The latter have been understandably shocked by the admission that BSE might affect humans when they had so often told this was almost inconceivable.

British taxpayer. The European Union does not have the money and, if it did, is not obliged to purchase unseizable beef.

The bigger question, however, is whether any exceptional measures, such as mass slaughter, might lower the health risk and/or reduce public disquiet. The options include slaughtering all cattle in the UK, slaughtering all cattle over a certain age or slaughtering all cattle in BSE-infected herds.

**No guarantee**

So far as the health risks are concerned, the extraction of the specified offals ought to eliminate the risk of transmission to humans. The removal of all mammalian wastes from animal food ought in due course to eliminate BSE. Beyond that, there is no policy guaranteed to ensure the absolute safety of British beef.

If all cattle were slaughtered, their replacements could not be guaranteed safe until enough time had passed to see whether they too developed BSE. This could be longer than the time needed to eliminate the disease from the existing herd. Similarly, killing the older cattle, now recommended by the National Farmers Union, could not guarantee the absence of BSE from younger cattle and killing all cattle in BSE-infected herds would not ensure the absence of BSE from as yet uninfected herds.

The sole method to restore confidence is to eliminate BSE. Culling - most obviously of the older animals which are most likely to be affected - would be advisable only to the extent that it could help achieve that. But time, along with properly funded enforcement of preventative measures, will be needed to achieve the end of the disease and restore public confidence. Full compensation to farmers for reporting BSE-infected cattle will also be necessary, since otherwise they have an incentive to conceal cases.

Lessons must be learned about policy toward farming and food safety. Right now, however, the British government has no sensible alternative to reassuring consumers, compensating farmers and eliminating BSE from British cattle as quickly as possible.

## Unsellable beef

Yet these are bygone. One question the government faces now is who will bear the losses of the affected industries. The answer, in practice, will be some mixture of the industry and the

# EU static on the line

The European Union had the opportunity this week to demonstrate leadership of the world trade system by committing itself decisively to the success of negotiations to liberalise global telecommunications markets. But, instead of rising to the challenge, the EU allowed internal differences to relegate it to a backseat role at a crucial stage in the talks. Worse still, some of its members appear oblivious to the risk that its stance could jeopardise the chances of reaching an agreement which is in their own interests.

The negotiations, in the World Trade Organisation, are five weeks away from their final deadline. If they succeed, they will commit as many as 50 countries, accounting for most world telecommunications traffic, to opening their markets to international competition. They will also lead to the adoption of common regulatory principles, designed to ensure market transparency and prohibit anti-competitive behaviour.

The talks have achieved greater progress than many believed possible when they began last year. The US has offered to open its newly deregulated telecommunications market fully to international competition. The EU has said it is ready to extend to foreign companies many benefits of the liberalisation of its internal telecommunications market in 1998. Some developing countries have also tabled surprisingly bold liberalisation proposals.

a pretext for keeping their markets closed. By offering totally free access to its market, the EU could nullify such excuses and restore momentum to the negotiations.

As much is acknowledged by the European Commission, which has urged member governments to agree to table a more liberal offer. But this week, EU foreign ministers rejected the idea. Instead, they opted for a reactive posture, insisting that they would make bigger concessions only if other countries moved first.

**Largely worthless**

Their response undercuts the EU's moral authority in the negotiations and its claim to be a staunch proponent of an agreement. If it will not lead by example, why should other, less enthusiastic, WTO members heed its entreaties to give ground? Furthermore, the ownership restrictions which the EU is so reluctant to renounce are largely worthless in practice. Any foreign company could legally circumvent most of them after 1998 by establishing a subsidiary in any EU member state.

The EU needs urgently to rethink its position. It should remind itself what is at stake in the negotiations, and what would be lost if they collapsed. The EU would still be bound to open its telecommunications market after 1998, but no such obligation would apply to other WTO members. The chance of ensuring fair international competition through enforceable multilateral rules would have been forfeited, creating a strong temptation for countries to resort to bilateral solutions. Furthermore, breakdown of the talks would severely impair the authority of the WTO and cast a shadow over the future world trade agenda.

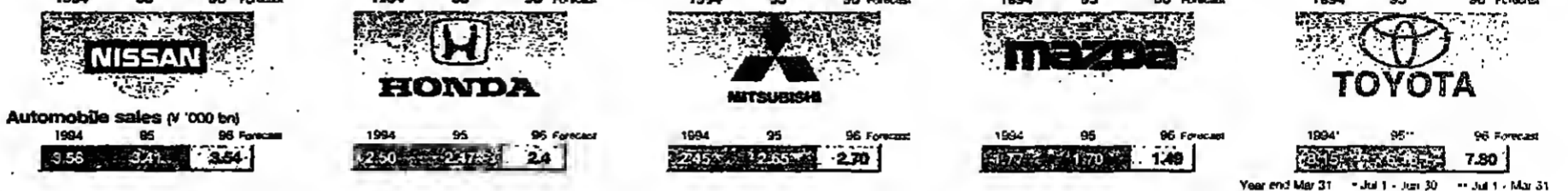
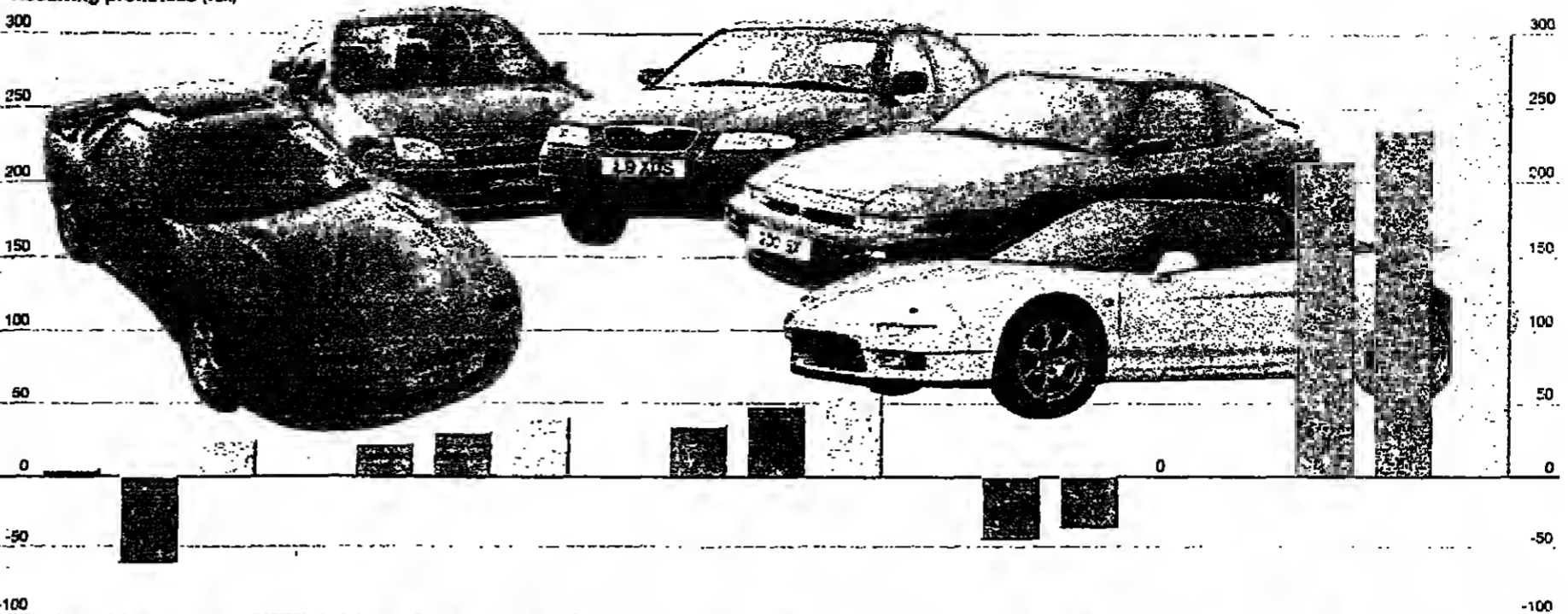
An EU decision to adopt a more forthright and constructive negotiating stance would not automatically guarantee the success of the talks. But sticking to its present position, or revisiting it late in the day, would much increase the probability of failure, for which the EU would be widely blamed. On any calculation, that is not a risk worth taking.

## Not forthcoming

However, these gains will be realised only if other countries - notably Canada, Japan, Korea and a number of other Asian economies - offer more liberal concessions. Without such movement, the US has said it will be unable to keep its own offer on the table, a development which would probably cause the talks to collapse. Yet the required concessions are not forthcoming.

The EU's role has become pivotal. Its negotiating offer, though generally liberal, still contains restrictions, notably on foreign ownership of telecommunications in five member states. The reservations have been seized on by other countries in the WTO as

## Driving ambition: top five manufacturers chart the road to recovery



# Japan moves into higher gear

## Buoyant sales at home and bigger profits abroad have improved prospects for recession-hit carmakers, writes Michiyo Nakamoto

In five days' time, 200 part-time workers will join the production lines at Honda's vast car manufacturing plant in Suzuka, 350kms south-west of Tokyo.

It is the first time for three years that Japan's fourth largest vehicle maker has hired seasonal workers - and a clear sign that prospects are finally looking up for the country's recession-hit car industry. A period of improved domestic demand has coincided in recent months with a significant weakening of the yen, lifting sales in Japan and profits in overseas markets.

"Our business environment has become much more favourable", says Mr Toshiaki Taguchi, a director of Toyota, the largest Japanese vehicle manufacturer.

Increased demand from Japanese consumers became evident last year, resulting in a 5 per cent rise in new car sales over 1994 levels. Spurred by cyclical demand - drivers replacing cars bought in the buoyant period between 1988 and 1991 - this trend is expected to continue, producing increases of 3.6 per cent in 1996 and about 3 per cent in 1997. Though modest compared with the rapid growth in the 1970s and 1980s, the turnaround is very welcome after four years of flat or falling sales.

The industry has responded by adjusting product strategy to meet the rise in demand, which has been focused on recreational vehicles such as off-road sport utility vehicles and station wagons. Honda will this year bring out four new recreational vehicles: the Orhila, a small station wagon; the PMX and SM-X, which are small mini-vans; and the Partner, a station wagon designed for commercial users. The increase in sales has been followed by an increase in profitability - the reward for cost-cutting measures implemented during the downturn

and, more recently, as a result of the depreciation in the value of the yen. This has raised the value of earnings in overseas markets when expressed in yen.

Honda expects to increase recurring profits (pre-tax profits before extraordinary gains or losses) by nearly 30 per cent to ¥40bn in the year to March, although sales will be 3 per cent lower - mainly because of a decline in exports to the US and Europe. The company has cut costs by 5 per cent a year since 1993. Every ¥1 fall in the value of the yen against the dollar adds ¥6bn to profits, it says.

Mitsubishi Motors, another large carmaker, expects to raise profits by nearly 15 per cent to ¥55bn over the same period on flat sales of ¥2,700bn.

The impact of cost reductions and the yen's depreciation is even more marked at Toyota which expects to cut costs by ¥130bn this year after a reduction of ¥150bn in 1994-95. The company's profits for the year to March are forecast to rise by 27 per cent to ¥300bn on sales of ¥7,600bn. Profits are expected to improve further next year.

According to a recent study by Nikko Research Centre, the private think-tank, the top five Japanese carmakers combined are likely to experience a 64 per cent improvement in recurring profits in the year to March 1997.

In spite of these positive developments, the Japanese car industry must still overcome some significant obstacles to a full recovery. Chief among them is the low rate of capacity utilisation at manufacturing plants. Annual output in Japan has fallen by more than 3m units from a peak of 13.5m in 1990 to 10.2m last year, the consequence of subdued demand and a massive shift of production to overseas facilities that was intended to counter the harmful effects of currency

fluctuations and trade disputes. Domestic manufacturing capacity stands at some 14m units, giving an overall utilisation rate of about 70 per cent. Carmakers generally need to maintain capacity utilisation rates of between 80 per cent and 90 per cent to be profitable, according to Mr Koji Endo, vehicle industry analyst with Lehman Brothers in Tokyo. "That means between two and five factories will have to be closed," he says.

But, in a country where leading companies have traditionally regarded protecting jobs as a social obligation, this is a prospect the industry has been reluctant to face up to. Instead, it has sought to counter the decline in capacity utilisation by making substantial reductions in variable costs.

"There is no doubt that there is some inefficiency [in capacity utilisation] but variable costs are being reduced drastically and this can cover the overhang in fixed costs," says Mr Yoshihiro Wada, president of Mazda, another large carmaker. Labour costs, for example, are being cut significantly, both through natural attrition and by transferring employees away from underutilised factories to sales outlets when vacancies arise.

Mitsubishi Motors is aiming to reduce its labour force by 10 per cent in the next four years. Honda is transferring 1,300 manufacturing staff or 4 per cent of its employees, to dealers.

Leading carmakers are also trying to reduce the development time on new models from an average of four years to, in some cases, as little as 18 months. "This is probably something that only Japanese carmakers can do," says Lehman Brothers' Mr Endo. He points out that the average among carmakers in Europe and North America is between six and seven years.

Nevertheless, domestic production is expected to decline further. Sometime in the next few years, car production in Japan is expected to fall to less than 10m units for the first time in 17 years. If it does, pressure to close factories will rise still further.

Another preoccupation for Japanese manufacturers in years ahead will be how to make the most of their expanding portfolio of overseas plants. By 1998, Toyota will be producing 376,000 more vehicles in North America than the 624,000 it did last year. Honda, which made 658,000 vehicles in North America in 1995, will have the capacity to produce 181,000 more cars in two years' time.

Japanese companies are also expanding fast in Europe. By 1998, Toyota will more than double its output there to 300,000 vehicles. Honda plans to raise European production from 110,000 units this year to 150,000 by 2000.

In south-east Asia, Japanese companies already have a market share of approximately 70 per cent and are expanding production aggressively. Toyota will have the capacity to build 200,000 more vehicles in the Asia-Pacific region outside Japan by 1998. Honda is setting up a new manufacturing plant in Thailand. It plans to raise production in the region from 100,000 last year to 150,000 in 1996.

Increasing capacity overseas is seen as vital for Japanese manufacturers, both to lower costs and to expand market share outside Japan, hence compensating for the slow growth expected in coming years in the domestic market.

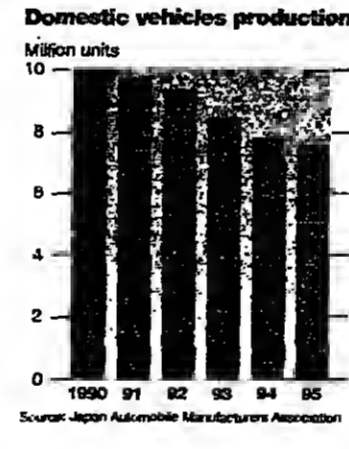
Particularly in North America, Japanese companies are hoping to use the extra capacity to make a bigger impact in some potentially lucrative product areas in which they have not been particularly successful.

Toyota, for example, plans to manufacture a pick-up truck in Indiana as part of a renewed drive to raise its profile in the fast-growing US truck market. Honda is to manufacture a new minivan in Canada and a luxury car in the US.

"The frantic pace of this international expansion reflects a geomtology by leading Japanese carmakers that they must put their global strategies in place while market conditions are relatively favourable. The next three years will determine the winners and losers," says Mr Takaki Nakanishi, a Tokyo-based analyst with Merrill Lynch.

But, as they consolidate their dominance in south-east Asia - the only region in which car sales are expected to show strong growth over the next few years - and prepare to attack new markets in the US and Europe, Japanese carmakers have reason to feel more comfortable about future prospects than for some years.

"This is not a complete recovery," says Toyota's Mr Taguchi. "But we are confident we are stronger now and better able to compete."



# OBSERVER

## Uneasy lies the head

Stabbed, says pay off. Eight decades after losing the Austro-Hungarian imperial crown, the Habsburgs have got the go-ahead to stage a family reunion at their former palatial residence in Vienna.

Austria's cabinet yesterday waived the ban on entry for the clan's two remaining members who had not formally renounced their claims to the crown. Felix Habsburg-Lothringen, 79, and his brother Carl-Ludwig, 77, will now be allowed to travel legally to Austria, using the Austrian passports they kept since childhood.

All other family members have already renounced their claims, including older brother Otto, a member of the European parliament on behalf of Bavaria. His son Karl is heaving away in Austrian politics. Felix and Carl-Ludwig have no such ambitions; they simply want to extinguish the rump of the 1919 Habsburg laws, which expropriated the family's vast property and exiled its members.

Two weeks ago, Felix, who also holds Belgian citizenship, made a surprise appearance at a Viennese press conference, where he waved his Austrian passport bearing the entry ban. He claimed that Austria lost its right to ban any EU citizen,

## Kif and skittles

Word of the scandal has raised questions in Algeria about the possible impact of the affair on the country's participation in this summer's Olympic Games in Atlanta. Algeria is no powerhouse in world sport. Yet it boasts two of the world's top middle-distance runners, Noureddine Morceli and Hassiba Boulmerka, both of them leading contenders for an Olympic medal.

But Berraf isn't suffering alone. In the past few days several dozen directors of public enterprises have been arrested on similar charges, as President Liamine Zeroual's government steps up an anti-corruption campaign.

## Drying up

Jochen Neynaber, managing partner of the German bank Schroder Munchmeyer Hengst & Co, and lover of ancient artifacts, has a sense of humour. Yes, that's right, a German banker who enjoys a joke.

Yesterday he gave a talk at a capital markets and investment conference in Frankfurt, where he did his best to rally the troops behind Emu, and scotch thoughts that a little bit of inflation might be good for us all: "A little bit of inflation is like wetting your pants. It feels good at the start but the consequences are miserable."

## I'm a believer

ADT's Michael Ashcroft, the former *enfant terrible* of the City of London, is on the move again. Observer hears that the Turks & Caicos Islands (pop 14,000), have granted Ashcroft "belonger" status. This is akin to citizenship and means that Ashcroft, a former big supporter of Britain's Tory party, can vote and run for office.

Ashcroft, who shot in fame in the 1980s with complex deals that the City didn't understand, has lived offshore for several years.

## Out for the count

Eddie George, the governor of the Bank of England, likes to poke fun at his old profession. At the recent annual dinner of the UK's Finance & Leasing Association he reminded the audience that there were three types of economist. Those who can add up and those who can't.

## 100 years ago

Indian finance  
Calcutta: Speaking during the debate on the Budget in the Legislative Council, Sir J. Westland said that additional evidence supporting the government proposals was furnished by the fact that the gross circulation of currency notes had decreased while the net circulation had increased. The only objection was that the exchange value of the rupee might be affected, but the Government would be going beyond its duty if it allowed itself to be influenced with regard to the matter by such considerations. General Sir H. Brakenbury made a long speech, in which he showed how immensely military matters had improved in India during the last five years. Everything was at present on a most satisfactory basis, and prepared for war.

## 50 years ago

Investment in India  
While the Indian Government and railway sterling debt have been almost eliminated during the war, a considerable British commercial interest remains. Its value to the United Kingdom is great. During the Washington loan negotiations it was revealed that, in 1945, Britain expected to receive £11,000,000 of interest and dividends from India, Burma and the Middle East.



## EU anger over UK food crisis set to dominate Turin talks

# Beef ban likely to blight summit

By John Kampfer in London and Lionel Barber in Brussels

The planned European Union ban on British beef threatens to dash hopes of a harmonious opening on Friday of the intergovernmental conference, with heads of government preparing for acrimonious exchanges with Mr John Major, the UK prime minister. MPs and EU officials said the BSE furore was likely to dominate the ceremonies in Turin that will mark the start of months of negotiations reviewing the Maastricht treaty.

The British government last night appeared to be moving towards a selective cull of cattle. This would force the commission to review its worldwide ban on UK beef.

Ms Emma Bonino, EU consumer policy commissioner,

appeared to hint that a small scale cull might not suffice. "In order to prevent confusion and panic, we should tell people that science is not a great help - we are facing a new situation." However, she said the commission wanted to demonstrate "solidarity" and would "do its best to try and be helpful".

For many members of the UK's ruling Conservative party, aware of the desperate political and economic implications of the crisis, the need for compensation overrides all political considerations. "We want the prime minister to spell out to others just how angry we feel about the way the Europeans have behaved, but it might not be the best way of getting some money back," said Mr David Harris, MP for St Ives and a moderate pro-European.

Several Tories, and not just

Euroceptics, suggested other member states were punishing Britain for its often intransigent opposition to many of the more federalist initiatives of recent years.

The European Commission and several EU countries, notably Germany, are furious about the UK's failure to forewarn them about last week's admission that there could be a link between BSE and Creutzfeldt-Jacob disease, the human brain condition. In its general approach to the IGC, the UK government has left itself little room for compromise. It is virtually isolated in its opposition to more majority voting, its objections to the role of the European Court of Justice and its refusal to incorporate the social chapter on employment rights into the new treaty. While much of Friday will involve set-piece

events, the BSE issue is almost certain to be raised at a lunch at which leaders will be able to discuss issues of special interest.

Mr Jacques Santer, commission president, had planned to use that session to make a pitch for his "confidence pact" which involves an extra Ecu1bn (\$1.25bn) spending on showpiece trans-European networks.

His plan was based on an unexpected windfall in the EU farm budget where the switchover from price supports to direct income payments was expected to generate between Ecu4bn and Ecu5bn in savings between 1997 and 1999. These savings, which are not expected to be available until 1998, would be dwarfed by the costs of an EU rescue package for the British beef industry.

Lean agenda for IGC, Page 2

## New satellite TV network set for Asia

### Thai media tycoon to offer 500 subscription channels after \$480m deal

By Ted Bardecke in Bangkok

Mr Sonthi Limthongkul, a Thai media tycoon, yesterday signed contracts worth \$480m to build and launch two satellites which will form the backbone of a pan-Asian satellite TV network.

Asia Broadcasting and Communications Network (ABCN), controlled by Mr Sonthi's M Group, said it planned to build "a new multimedia information superhighway for Asia in the sky".

The satellites will be able to broadcast 500 pay-TV channels direct to every subscriber in a market covering south-east Asia, ethnic Chinese communities and the Indian subcontinent.

Within three years of its late-1997 launch, the company hopes

to have between 3m and 5m subscribers. They will have to buy a small satellite dish and probably pay a monthly fee.

The satellites will have communications as well as broadcasting capability.

Some of this capacity will be taken up by M Group's other publishing and data ventures - including the newly launched regional business newspaper, Asia Times.

Mr Sonthi said: "Our plan is to be the first Asian corporation to provide a fully integrated multimedia network, providing broadcasting, newspaper publishing and digital data communications services to this rapidly developing part of the world."

Loral Space & Communications

of the US will build the two L-Star satellites, and French Arianespace rockets will put them in orbit.

L-Star 1 is to be launched in December next year, and L-Star 2 is expected to be in orbit by the end of 1998.

They will operate in an orbital slot granted to Laos, which has been given a 30-year concession to Lao-Star, a company held 80 per cent by ABCN and 20 per cent by the Laoian government.

ABCN said it had linked up with Echostar Communications of the US and Itochu of Japan to develop programming.

In the past, Mr Sonthi, the son of Chinese immigrants to Thailand, has said he envisages linking up with a television broad-

caster or producer in each of the countries served by the satellite system to create a pan-Asian network.

M Group's financial structure is a maze, with several of the group's companies leveraged against each other, analysts say.

Some analysts have questioned Mr Sonthi's ability to finance the project given two consecutive years of losses at Manager Media Group, the publishing arm, huge start-up costs at Asia Times, and a projected saturation of the satellite market in Asia by 2000.

But M Group executives expect Loral Space & Communications to take an equity stake in ABCN, which is also looking towards a share flotation or debt issue in the US to raise additional capital.

## German sales fall because of Internet

Continued from Page 1

echoed this week by the Munich-based Ifo economic research institute. Its latest monthly report found the economy had worsened further in February and discovered growing pessimism about exports among industrialists in western Germany.

Mr Fuchs said the fall in Germany's share of world trade was not a result of poor quality but of high costs and prices. He said the government must cut the costs of Germany's generous welfare system. Germany needed a reduction of between 20 per cent and 30 per cent in non-wage labour costs to stay internationally competitive, he said.

Germany's export performance was also suffering from short working hours. In a three-year period, a Japanese worker would work an extra year compared with his German colleague.

## China presses for allegiance from Hong Kong officials

By John Ridding in Hong Kong

Hong Kong's top government officials serving after next year's handover to China will be required to support a controversial provisional legislature, a Chinese official said yesterday.

The statement by Mr Chen Ziyang, deputy director of the Hong Kong and Macao Affairs Office, will fuel concerns arising from Beijing's decision to abolish the existing Legislative Council (LegCo) and highlights the pressures facing the civil service ahead of the transfer of sovereignty.

China's move to replace LegCo, confirmed last Sunday, has also prompted a dispute over the budget for 1997-98.

Chinese officials argue that since the budget straddles the handover and since most of the period will fall under Chinese sovereignty, it cannot simply be

approved by the existing LegCo. However, Mr Donald Tsang, Hong Kong's financial secretary, yesterday upheld the role of LegCo in the budget process.

While he emphasised that the Hong Kong government would seek a "full consensus" with China on the budget for 1997-98, he pointed to the "clear and explicit legal requirements" for approval of the annual budget. "Our intention is quite clearly that we would submit a budget to the Legislative Council for approval in the usual way."

Pro-Beijing politicians in Hong Kong said it was natural that civil servants should recognise the provisional legislature, which is due to replace the existing elected body.

They added that Mr Chen had not said civil servants should make a public commitment to the body, nor that existing officials should make clear their stance

on the provisional legislature. But the proposal drew strong criticism from democratic politicians. "How can they [civil servants] on the one hand serve the Hong Kong government and not follow the policy of the Hong Kong government," said Mr Cheung Man-kwong, a Democratic party member.

Mr Chris Patten, the Hong Kong governor, has fiercely opposed the abolition of LegCo, an issue which has remained a focus of disagreement between China and Britain.

Sunday's decision by the Beijing-appointed Preparatory Committee to replace LegCo has also drawn criticism from the US which said China must honour its commitment to Hong Kong's autonomy.

Mrs Anson Chan, head of the civil service, urged China not to do anything that would harm the morale of civil servants.

### THE LEX COLUMN

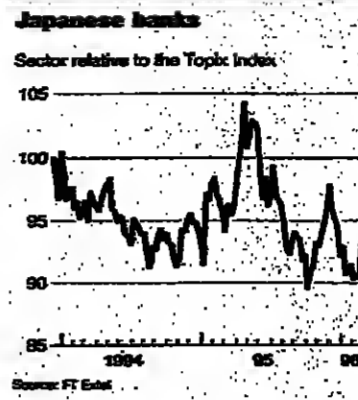
## Spring cleaning

Japan's banks are engaging in a curious form of corporate machismo - seeing who can announce the largest losses. After yesterday's downbeat warnings from 10 commercial and trust banks, it looks as if 17 of the 21 leading banks will finish the current financial year in the red. Between them, they have forecast an eye-popping ¥3,900bn of losses after writing off around ¥7,000bn of bad debts.

In fact, the banks will probably end up in better shape as a result. For a start, the bigger these losses, the sharper next year's recovery. Some, like Asahi Bank, have provided for up to 75 per cent of all problem loans. And most will get tax breaks for writing off their exposure to the jussu - Japan's bankrupt housing loan companies - which the government is desperate to liquidate. Moreover, the shock of the losses is galvanising the banks into meaningful cost reductions, an area where they have lagged behind western rivals. Almost all are now proposing staff cuts of up to 10 per cent, a salary freeze and an end to directors' bonuses. Toyo Trust has even put its company dormitories up for sale to boost its return on assets.

The danger is the red ink will further weaken their capital ratios. But most banks are still managing to offset part of their losses with capital gains on share sales and, with clearer balance sheets, rights issues no longer look impossible. And for foreign investors, the fact that the banks are at last tackling their bad debt problems is a vital step in restoring confidence in Japan's financial institutions.

FT-SE Eurotrack 200:  
(1679.2 (-5.8))



asset value remains at 29 per cent.

With a new generation of Wallenbergs, Jacob and Marcus, preparing to take control, there is an opportunity to do much more to boost valuations. Incentive remains weighed down by passive stakes in Asea and Electrolux, which grates with its newly-projected image as a high-tech stock. Meanwhile, investor's aims of shedding its reliance on mature or cyclical businesses will be impossible to achieve while the group retains stakes in Saab and SCA. The reason for investor's large discount to net asset value is the assumption that it is run primarily to protect the power base of the Wallenbergs rather than to enrich shareholders. Until the management can achieve yet more fundamental change, an unhealthy discount will remain.

### Wallenberg family

The flotation of Scania and the recent acquisition of Gambio represent dramatic rumblings within Sweden's ultra-conservative Wallenberg empire. The family has long been content with just sticking its fingers into the bulk of Sweden's corporate pies, from Saab and SCA to Ericsson and Electrolux. But these latest deals represent a belated push towards the more modern concept of shareholder value by the family's listed holding companies investor and incentive.

Incentive's management aims to transform it from a jumble of second-grade companies into a flourishing growth business. A shift from welding to medical technology has helped re-rate the shares, with the discount to estimated net asset value narrowing to 16 per cent. Meanwhile, the push to crystallise a value for Scania has prompted a similar rise in the share price of incentive's parent company, investor, although its discount to net

### P&O

P&O's plans for change are a textbook example of both the strengths and weaknesses of corporate governance in the UK. Following a sustained period of share price underperformance, P&O has had little choice but to come up with a clear strategy: an explicit return on capital target, together with the proposed ditching of a couple of underperforming businesses and £500m worth of property. That deserves a modest cheer. But the fact that the company has taken so long to come up with such a relatively modest package is a sobering thought for those who think Britain's big institutional shareholders wield too much power.

P&O's new overall 15 per cent return on capital target is a case in point. For shareholders, it is excellent news that the company is starting to speak this language. Less good is the fact that - for the next couple of years

at least - the target has precious little chance of being met.

Selling off Bovis Homes and pulling out of bulk shipping should help a bit. But what P&O is really doing is raising cash to feed its capital spending habit - still a bill of \$370m in each of the next two years, more than this year's operating cash flow. And the main capital-consuming areas of the business remain in place. In parts, such as cruise shipping, P&O is probably spending the money wisely. In others - especially container shipping - it is, in effect, making a big gamble on market conditions improving.

To invest in a conglomerate like P&O is to put one's faith in its ability to direct capital wisely. Yesterday's measures can only help but have too much of an air of expediency.

### South West Water

Much has been made of the absurd situation being played out in the south-west of the UK. Two water companies, Wessex Water and Severn Trent, are competing to snap up South West Water, each bidder is queering the other's pitch. Even if they were alone, neither bid would make all that much sense; in both cases, a share buy-back could well be more earnings-enhancing and less risky.

Almost as odd, though, is the absence of the bid which really could stack up - one from the local regional electricity company, Swelch. Such a bid would have powerful advantages. Unlike one from a water company, it would not be subject to compulsory referral to the Monopolies and Mergers Commission. Moreover there are good reasons why Swelch's US parent, Southern Electric International, might be willing to pay more than a water company. For one thing, the water regulator should be more relaxed about a multi-utility merger; a Swelch bid ought not to be hobbled by an obligation to share cost savings with customers. For another, because Swelch and SWW's businesses substantially overlap, the scope for taking out costs - from joint billing and metering - would be much greater than where two different water companies are merged. Swelch is no stranger to such multi-utility logic: it is already aggressively marketing gas to its domestic customers. So far, Swelch and Southern have pool-pooled the idea of a bid. Perhaps they should think again. Certainly, if SWW is looking for a US white knight its first port of call should be on its own doorstep.

Additional Lex comment on UK construction, Page 20

### FT WEATHER GUIDE

**Europe today**  
A frontal zone bordering on very cold air from the north will bring rain to southern France and snow to the Alps and Pyrenees. The British Isles, Ireland and the Atlantic will have bright spells. A widespread high over Ireland will cause light frost in the North Sea countries with afternoon temperatures around 5C during sunny periods. Southern Germany will have snow and rain. The Spanish Basque provinces to La Coruna will have showers but southern Spain and southern Portugal will have sunny periods. An active low will move to the Adriatic, causing unstable and rather damp conditions in the surrounding regions. Italy will be mostly cloudy with rain or thunder showers in the south. The western Balkans will be mild with rain. Later, the mountains, including the Carpathians, will have snow.

**Five-day forecast**  
Much of Europe will have below average temperatures. Low pressure near Scandinavia will produce snow. Central Europe will become colder with fresh snow near the Czech Republic. An unstable north-westerly flow with rain or hail showers will remain over the North Sea countries. A persistent high will influence Ireland and the western UK.

**TODAY'S TEMPERATURES**

Maximum	Beijing	fair	15	Cerence	fair	29	Faro	sun	19	Madrid	cloudy	18	Rangoon	sun	34		
Minimum	Calcutta	fair	7	Cardiff	fair	7	Frankfurt	drizz	10	Majorca	fair	19	Rayfiavik	cl	4		
Abu Dhabi	25	Belfast	shower	14	Capeblanca	sun	17	Geneva	shower	10	Malta	cl	19	Rio	cl	25	
Accra	31	Berlin	sun	4	Chicago	fair	7	Manchester	cloudy	7	Manila	cl	20	Rome	cl	17	
Algiers	sun	18	Bermuda	fair	22	Cologne	sun	7	Glasgow	cloudy	7	Montreal	cl	22	S. Frisco	cloudy	16
Amsterdam	sun	7	Bogota	cloudy	19	Dakar	sun	26	Hamburg	sun	5	Melbourne	fair	28	Sao Paulo	sun	10
Athens	cloudy	16	Bombay	sun	34	Dallas	rain	12	Helsinki	fair	12	Moscow	sun	22	Singapore	cloudy	33
Atlanta	shower	14	Buenos Aires	fair	34	Doha	sun	34	Hong Kong	sun	26	Miami	sun	28	Singapore	cl	33
B. Aires	sun	25	Budapest	cloudy	12	Dubai	fair	28	Honolulu	fair	27	Milan	shower	16	Strasbourg	drizz	9
Bangkok	cloudy	6	Chengde	fair	4	Dublin	cl	6	Istanbul	fair	11	Montreal	cloudy	4	St. Peter	cl	24
Bhram	rain	36	Cairo	sun	24	Dubrovnik	rain	15	Jakarta	cloudy	32	Moscow	sun	3	Tanger	fair	19
Bombay	cl	26	Cebu	sun	24	Edinburgh	cloudy	8	Jersey	cloudy	9	Mumbai	sun	5	Tel Aviv	shower	18
Barcelona	fair	18	Cape Town	cloudy	21	Karachi	sun	34	Nairobi	cloudy	31	Tokyo	cloudy	13	Toronto	cloudy	0
						Kuwait	sun	25	Nagles	rain	16	Toronto	cloudy	0	Vancouver	fair	19
						L. Angeles	sun	20	Nassau	fair	27	Vancouver	fair	19	Vancouver	fair	19
						Las Palmas	sun	24	New York	sun	8	Venice	rain	13			
						Lima	fair	25	Nice	shower	17	Vienna	cloudy	6			
						Lisbon	sun	18	Nicosia	sun	18	Waglaw	cloudy	2			
						Luxembourg	drizz	8	Oslo	fair	9	Washington	cl	6			
						Lyon	shower	12	Paris	fair	10	Wellington	cloudy	17			
						Madeira	sun	21	Prague	rain	4	Winnipeg	show	-2			

Situation at 12 GMT. Temperatures maximum for day. Forecasts by Meteo Consult of the Netherlands

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FINANCIAL TIMES COMPANIES & MARKETS

Wednesday March 27 1996

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Fletcher King

CHARTERED SURVEYORS COMMERCIAL PROPERTY CONSULTANTS

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IN BRIEF Thomson-CSF back in black at FF1bn

Thomson-CSF, the professional electronics arm of France's Thomson group which is to be privatised later this year, returned to the black in 1995, rebounding to a FF1.01bn (\$196m) net profit from a FF796.2m loss in 1994.

Argentina head upbeat on share issue The \$1.1bn secondary share issue by the Spanish state of a 25 per cent stake in Argentina, the Spanish bank, was hailed as a success by its chairman Mr Francisco Luzón but greeted with caution by analysts after Argentina cut the international tranche, allocating an additional 2m shares to the retail domestic issue.

RVL rebound gathers speed RVL, the truck and bus division of France's state-controlled Renault vehicles group, accelerated its slow financial recovery by more than doubling 1995 net profits to FF712m (\$140m) from FF343m in 1994.

Citic Pacific advances 20% for year Citic Pacific, the Hong Kong-listed arm of China's flag-ship investment company, announced a 20 per cent increase in net profits for 1995 to HK\$3.07bn (US\$397m). Mr Larry Yung (left), Citic chairman, said he expected to make investments of between HK\$2bn and HK\$10bn this year and added that the group was examining several infrastructure projects.

Sumitomo joins Newmont venture Newmont Gold of the US has selected the Sumitomo group of Japan to be its partner in the Batu Hijau project in Indonesia, which they will develop into one of the world's biggest copper-gold mines at a cost of \$1.5bn.

Cellular growth helps 18% rise at Telebrás Growth in cellular services helped drive an 18 per cent increase in consolidated 1995 net profits to R\$905.5m (US\$819.5m) at Telebrás, Brazil's state-controlled telecommunications company.

Hanleys sets its sights overseas Hamleys, the UK toy retailer, announced a 13 per cent rise in pre-tax profits and unveiled plans to open replicas abroad of its famous store in Regent Street, London.

Mining groups face Idaho damage claims US authorities have lodged claims against Coeur d'Alene Mines, Asarco, Hecla Mining and Sunshine Mining, seeking hundreds of millions of dollars for alleged environmental damage caused in the Coeur d'Alene silver mining district of Idaho between 1950 and 1965.

Companies in this issue: Iberia, Japan Air Lines, Alpha Credit Bank, KPN, Lloyd Thompson, etc.

Market Statistics: Annual reports service, Benchmark Govt bonds, Bond futures and options, etc.

Chief price changes yesterday: FRANKFURT (DEM), PARIS (FFP), etc.

Rome sets Banco di Napoli sale terms

The Italian government said last night it wanted to begin privatising Banco di Napoli, the troubled Neapolitan bank, before the end of next year, but only if other banks agree to back a rescue plan.

The Italian treasury and a group of Italian banks agreed at the end of November to grant Banco di Napoli a record L2,500bn (\$1.6bn) emergency loan to solve its short-term cash problems.

The government said it would take immediate action by transforming the treasury's share of the emergency loan - L1,000bn provided by the post office savings bank - into a subordinated loan.

Banco di Napoli's recovery through subordinated loans, or the subscription to savings or preferred shares, convertible into shares.

But before backing further capital increases, the government said it would need to see evidence of progress on restructuring, a union agreement on reducing labour costs, and the availability of one or more banks to intervene financially in the clean-up operation.

UK transport and property group attempts to restore confidence through sales

P&O to dispose £1bn of assets

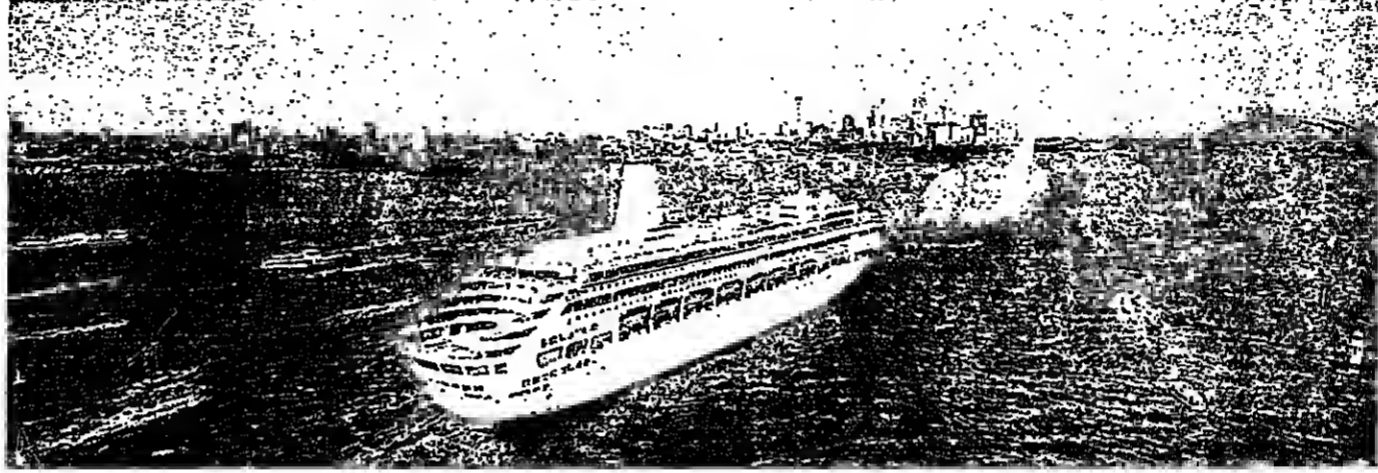
P&O, the UK transport, property and construction group, yesterday unveiled a £1bn (\$1.5bn) disposal programme over the next three years in an attempt to restore confidence in the group.

The proposed asset sales, which include the flotation next year of Bovis Homes, prompted shares in P&O to close up 8p at 52p, after reaching 54p at one stage. However, the news received only a guarded welcome from analysts.

Lord Sterling of Plaistow, chairman, said the group would sell at least £500m of property by the end of 1998. Asset sales of £200m had already been agreed this year, around £100m of which were property.

He added that the group had decided to disclose its disposal plans because of concerns raised by investors. He said other divisions, including container shipping, would be sold if they did not achieve acceptable returns.

Analysts said the disposals would take the immediate pressure off the group, but did not address the low profitability of some of its remaining businesses.



P&O Cruises lifted profits to £110.7m from £100.1m, helped by the Oriana (above), the luxury cruise liner launched in April

Telecom Eireann sell-off attracts two bids

By Hugh Carnegie in Stockholm, and John Murray Brown in Dublin

Telecom Eireann, the Danish telecoms operator, and a partnership between Sweden's Telia and KPN of the Netherlands emerged yesterday as the only bidders in preliminary tenders for a 35 per cent stake in Telecom Eireann, the state-owned Irish telecoms company.

However, the prices offered are believed to be below Irish government expectations, indicating the market for telecoms investments may be suffering from a glut.

The government had been hoping to raise between L2400m and L3500m (\$632m-\$790m) for the privatisation offering. Although the bidders refused to comment, it appeared their offers did not exceed \$450m.

The Irish government, which is being advised by Morgan Stanley, the US bank, has been criticised by opposition parties for mishandling the sale after British Telecom, Cable and Wireless and AT&T earlier pulled out of the race.

Barry Riley From mad Dow damage to mad cow bonds

Although 1995 was a bumper year for UK pension fund returns, their managers give the appearance of getting ready for tougher times. They have been selling equities and adding bonds and cash. But the investment judgments may be supplemented by new prudential considerations.

According to World Markets, which measures performance, the weighted average return was 19.1 per cent in 1995 and the median fund's return was 20.0 per cent, a gap which can be attributed to the high weighting (7 per cent) of poorly-performing property in the highest 50 funds.

Right now, the UK managers are unrepentant about their 1995 mistake on Wall Street

According to government statistics released this week, pension funds sold nearly £7bn (\$10.6bn) of UK equities during 1995 and in fact have not been significant buyers of this asset class since 1991. At the same time, purchases of gilt-edged bonds were just over £7bn in 1995, and holdings have doubled since the beginning of 1992 (although this still takes UK bonds only to about 6 per cent of portfolios).

Why has strategy shifted like this? After all, UK equities have continued to perform well, returning a handsome 23.8 per cent last year and 16.7 per cent annualised over the past five years compared with 13.7 per cent on gilts on the same basis. But total equity exposure, including overseas holdings, has drifted down from 80 per cent to 76 per cent since the end of 1993.

Right now, the UK managers are unrepentant about their 1995 mistake on Wall Street. This is being advised by Morgan Stanley, the US bank, has been criticised by opposition parties for mishandling the sale after British Telecom, Cable and Wireless and AT&T earlier pulled out of the race.

FENNER PLC Private Placement of US \$50,000,000 6.60% Senior Unsecured Notes due 2006



COMPANIES AND FINANCE: EUROPE

Thomson-CSF back in black despite sales slip

By David Buchanan in Paris

Thomson-CSF, the professional electronics arm of France's Thomson group which is to be privatised later this year, yesterday announced a return to the black from a FF962m net loss in 1994 to a FF1.01bn (\$189m) profit for 1995.

The results were helped by lower restructuring costs and a reduced burden on its stake in Crédit Lyonnais, the troubled bank.

Thomson-CSF, whose business is still nearly two-thirds in defence, reported a 2.4 per cent drop in sales to FF25.5bn and a decline in operating profit from FF2.17bn in 1994 to FF1.95bn last year.

But the company gained more from its stake in SGS-Thomson, the Franco-Italian chipmaker in which Thomson-CSF's stake has been reduced to 17 per cent. The disposal of shares led to a FF240m capital gain.

The big improvement in Thomson-CSF's bottom line was due to the fact that in 1994 it had to make a FF1.5bn provision in 1994 for Crédit Lyonnais losses - reflecting its 19 per cent stake in the bank - while the 1995 provision was only FF23m.

The terms of the state rescue of Crédit Lyonnais allow Thomson-CSF to keep annual provisions for its bank investment at this low level.

Mr Marcel Roulet, former head of France Télécom who last month replaced Mr Alain Gomez as head of Thomson with the mission of privatising the whole group this year, yesterday gave no precise indication of his sell-off plans. Confining himself to generalities, he said his aim was to "give industrial direction to the group, to promote restructur-

ing of defence electronics [in France] to develop synergy between military and civil activities, and to allow Thomson-CSF to branch out more into civil business".

But Mr Roulet said he wanted to move as quickly as possible with privatisation so as not to prolong the "uncertainty" for the company's clients and partners.

Thomson-CSF has produced its results this year earlier than usual, and said yesterday that it would increase to FF2.60, from FF2 in 1994, its dividend to private investors who hold 41 per cent of its capital.

The other 59 per cent is held by the Thomson SA state holding company, which owns 100 per cent of the other half of the Thomson empire. Thomson Multimedia, this subsidiary makes televisions, video recorders and other products.

Thomson Multimedia last week announced that, after several years of steady improvement, its results had deteriorated in 1995 with a FF1.06bn net loss, nearly double the 1994 loss of FF566m.

The news highlighted the magnitude of Mr Roulet's task in selling off the group as a whole.

Nevertheless, Mr Roulet - who, like his predecessor, heads Thomson-CSF as well as Thomson SA - said privatisation would not hinder Thomson-CSF from pursuing alliances and acquisitions in defence orders. The pressure to do this may ease slightly.

The company said yesterday that, despite a drop in sales last year, it took in more orders last year, including work related to a Saudi frigate contract. This lifted its total order book to FF70.9bn at end-1995, from FF63.6bn at end-1994.



Marcel Roulet, pushing on with privatisation plan

was discussing with GEC at the time of his departure.

Under Mr Gomez, Thomson-CSF effectively "bought" turnover, through foreign acquisitions and alliances, to offset the general decline in defence orders. The pressure to do this may ease slightly.

The company said yesterday that, despite a drop in sales last year, it took in more orders last year, including work related to a Saudi frigate contract. This lifted its total order book to FF70.9bn at end-1995, from FF63.6bn at end-1994.

NEWS DIGEST

Océ-van der Grinten ahead in first term

Océ-van der Grinten, the Dutch office equipment and photocopier maker, reported a 30 per cent rise in net profits to FF27.4m (\$16.5m) in the first quarter of its 1996 financial year ending November 30. This represents a marked improvement from the 20 per cent increase posted in 1995 and a continuation of the higher trend apparent in last year's final quarter. Sales rose 11 per cent to FF77m but were held back slightly by the translation effect of the strong guilder. At constant currency rates, the increase would have been 14 per cent.

The company also said it was poised to complete its recently announced takeover of Siemens Nixdorf's printing systems business on April 1. The purchase price of FF900m would be financed by an issue of around 2.6m ordinary shares, worth about FF370m, and 5m cumulative preference shares, which would be priced at FF25 each and aimed at institutional investors. The rest of the purchase price would be financed by interest-bearing debt.

Ronald van de Krol, Amsterdam.

Mayr-Melnhof cancels payout

Mayr-Melnhof, the Austrian paper and carton group, has cancelled its 1995 dividend because of unexpected losses at its German subsidiary FS Karton. Mr Michael Groeller, chairman, yesterday said the parent company had to take Sch72m (\$16.55m) from its reserves to cover the losses and write off the value of its holding on its books. FS Karton's deficit was due to problems at its business with China, the closure of a German factory and an large unpaid bill with an overseas partner, Mr Groeller said.

Before these extraordinary outlays, Mayr-Melnhof's group net income jumped 75 per cent from Sch132m to Sch131m, while sales advanced 14 per cent from Sch10.8m to Sch12.5m. But on its balance sheet, Mayr-Melnhof reported neither a profit nor a loss for 1995. Analysts were surprised by the announcement, and Mayr-Melnhof shares closed nearly 4 per cent lower at Sch495 on the Vienna stock exchange yesterday. Mr Groeller said he hoped to resume dividend payouts for this year. Last year, the company paid Sch14 a share.

Eric Frey, Vienna.

FLS Industries slips

FLS Industries, the Danish conglomerate, yesterday posted net profits down 8 per cent from Dkr425m in 1994 to Dkr392m (\$72.15m) last year. Pre-tax profits dropped from Dkr532m to Dkr566m, while earnings per share dropped from Dkr46 to Dkr45. The company said excluding extraordinary and non-recurring items, pre-tax profits rose from Dkr388m a year earlier to Dkr456m. Turnover rose 25 per cent from Dkr14.4bn to Dkr18.1bn. The dividend was unchanged at Dkr12 per share.

Of the Dkr3.5bn growth in sales, about Dkr1bn could be attributed to the net contribution of newly acquired units, the company said. Among units already owned in 1994, the strongest growth came in the area of engineering activities. The main FL Smith-Fuller Engineering division, which contributed 36.5 per cent to sales, was able to expand its global market share despite increasing competition in the cement industry, and divisional profitability was satisfactory, it said.

FLS Aerospace had another difficult year, and indications were that market conditions would also be difficult in 1996. Despite increased air travel, there would still be overcapacity in the maintenance market. The aerospace division contributed a pre-tax loss of Dkr146m. While that should improve in 1996, the division would still be loss-making, the company said.

For the whole group, sales were expected to rise again in 1996, and continued tight cost control should ensure better operating results in companies within the group. However, uncertainty about currency and tax rates, among other things, indicated a need for caution in forecasting the 1996 net profit in kroner, FLS said.

AFX News, Copenhagen.

Banca di Roma doubles profit

Banca di Roma, the Italian bank, said it posted a parent net profit of L82bn (\$56m) in 1995 compared with L42bn a year earlier. Deposits rose to more than L179,000bn compared with L126,000bn a year earlier and loans rose to more than L150,000bn from L106,000bn. The bank said 1995 parent net interest income fell 7.3 per cent to L5,224bn.

AFX News, Rome.

Unit to quit Bremer Vulkan

Bremer Vulkan's subsidiary, Neptun Industrie Rostock, is to split from its parent company, according to NDR. The subsidiary, which currently has 14 subsidiaries and a positive balance sheet, announced its interest in quitting the group on March 4.

AFX News, Rostock.

Warm welcome for OTE offer

By Kerin Hope in Athens

Greece's telecoms offering opened strongly yesterday, with local investors using credit cards to subscribe for shares in OTE, the state-owned monopoly, or taking out special loans offered by Greek banks underwriting the issue.

An advertising campaign on Greek television urging small investors to buy shares in "Greece's biggest and most profitable company" had helped to fuel demand. Newspaper reports over the weekend that institutional investors in the UK and US approve of the offering have boosted domestic confidence in its quality.

Brokers in Athens said yesterday that appetite from small investors and wealthy private individuals such as Greek ship-owners was so strong that the 66 per cent of the issue being offered domestically would certainly be oversubscribed.

The finance ministry was yesterday under pressure to

release a further 2 per cent of OTE's equity for sale this week under the terms of a law passed earlier this year.

Most of the additional equity would go to foreign institutional investors, which have initially been offered 4.5m shares through an unofficial international tranches being managed by ESBG, Salomon Brothers and BZW.

The issue is being co-ordinated by National Bank of Greece, the country's largest state-owned bank. Like National, the two lead underwriters - state-owned Commercial Bank and Alpha Credit Bank, the largest private Greek bank - are able to sell shares through sizeable branch networks throughout Greece.

To ensure the widest possible distribution of shares domestically, as many as 50 institutions, including every Greek bank, foreign banks with branches in Athens and a group of Greek brokerage houses, are underwriting the issue.

Téneo chief sees return to profit for Iberia

By David White in Madrid

Iberia, the Spanish state-owned airline at the centre of a state-aid controversy, will make a clear profit this year after losing Pt440m (\$382m) in 1995, Mr Javier Salas, chairman of the Téneo holding company, predicted yesterday.

Iberia's financial performance this year would be helped by the controversial Pt37bn capital increase recently approved by the European Commission and due to be carried out shortly, he said. The airline group's loss, which he said reflected restructuring costs, was about Pt11bn worse than in 1994. However, operating results

were strongly positive, with earnings rising by Pt19bn to Pt25bn.

Air transport was the only part of Téneo's wide-ranging interests, which include holdings in energy and aerospace, to show a deterioration in 1995.

Overall, the Téneo group more than doubled net earnings from Pt30bn to Pt71bn, and Mr Salas predicted a further increase this year. Group turnover was 10 per cent up at Pt22,230bn.

However, the group continued to be heavily dependent on its controlling position in Endesa, the leading Spanish electrical utility, which raised net profit from Pt132.7bn to Pt148.9bn.

The future of the government's indirect stake in Endesa - and that of Téneo itself - are both in question after this month's general election victory by the centre-right Popular party, which is committed to a more ambitious privatisation programme.

Téneo was formed in 1992 to bring together the more viable parts of the former Instituto Nacional de Industria, a holding company which disappeared in a reorganisation of the state sector last year. Mr Salas, who is expected to be replaced once a new government takes office, said the group was trying to get itself into a position for taking in private-sector shareholders.

But he added: "This goes beyond our decision-making capacity."

The holding unit last year halved its staff to about 200. Employment for the group as a whole fell by about 1,500 to 77,000, including more than 34,000 at Iberia and its affiliates.

Earnings before tax and minorities climbed from Pt128bn to Pt139bn. Operating profits rose from Pt264bn to Pt368bn, an increase of 37 per cent. Mr Salas said that Pt44bn of this gain came from business growth. Pt20bn from price increases, and Pt20bn from job reductions and other cost-cutting measures.

Higher prices last year in particular affected Inespal, the aluminium group whose net profits moved from a Pt180m loss to Pt100m net profit.

Last year Thomson-CSF of France took a 25 per cent stake in the defence electronics unit Indra, while 40 per cent of Téneo's construction subsidiary, Auxini, was sold to a private-sector Spanish contractor, OCP.

The group reduced its debt by Pt228bn during the year to Pt1,207bn, resulting in a reduction of Pt38m financial charges to Pt129bn.

Extraordinary losses, mainly resulting from restructuring measures, meanwhile increased by Pt68bn to Pt94bn.

NOTICE OF PARTIAL REDEMPTION

JAPAN AIR LINES COMPANY, LTD. (Nippon Koku Kaohshiki Kaisha) (the "Company") U.S. \$42,150,000 10 7/8 per cent. Guaranteed Bonds due 1998 (the "Bonds")

NOTICE IS HEREBY GIVEN, that the following Bonds of the Company, in the aggregate amount of \$5,085,000 have been drawn for redemption on April 29, 1996 (the "Redemption Date") for the account of the Sinking Fund at a redemption price (the "Redemption Price") of 100% of the principal amount thereof.

Table with columns: SERIAL NUMBERS OF BOND CALLS FOR REDEMPTION, 10 7/8% Due 8/22/1998 (\$5,085,000 each). Rows contain serial numbers from 1253 to 8275.

Payment of the Redemption Price will be made upon presentation and surrender of the Bonds called for redemption, together with all coupons appertaining thereto maturing after April 29, 1996, at the principal office in the City indicated of any of the following Paying Agents:

- The Bank of Tokyo, Ltd. in Paris
The Industrial Bank of Japan, Ltd. in London
The Bank of Tokyo, Ltd. in Brussels
The Industrial Bank of Japan (Luxembourg) S.A. in Luxembourg
Bank of Tokyo (Switzerland), Ltd. in Zurich
Industriebank von Japan (Deutschland) A.G. in Frankfurt/Main

On and after the Redemption Date, interest on the Bonds to be redeemed for this Sinking Fund will cease to accrue. The coupon for interest payable on April 29, 1996 should be detached and presented for payment in the usual manner.

JAPAN AIRLINES COMPANY, LTD. By: The Bank of Tokyo Trust Company as Fiscal Agent

Dated: March 27, 1996

Annual Meeting of Shareholders

The Annual Meeting of Shareholders will be held on Thursday, May 9, 1996, 10:00 a.m. at BASF-Feierabendhaus, Leuschnerstraße 47, Ludwigshafen/Rhine, Germany

- Agenda
1. Presentation of the Financial Statements of BASF Aktiengesellschaft and BASF Group for 1995; presentation of the 1995 Annual Report covering BASF Aktiengesellschaft and the BASF Group; presentation of the Supervisory Board Report.
2. Declaration of dividend.
3. Ratification of the actions of the Supervisory Board.
4. Ratification of the actions of the Board of Executive Directors.
5. Appointment of an auditor.
6. Authorization of the Board of Executive Directors to issue bonds with warrants of the company; creation of conditional capital.
7. Reduction in the nominal value of a proportion of the shares issued by the company.

Shareholders wishing to participate in the Annual Meeting and to exercise their right to vote must have deposited their shares during normal office hours and in the prescribed form at a depository bank. The shares should remain deposited until the conclusion of the Annual Meeting. Shareholders have the right to vote by proxy. Depository banks and the full Agenda are published in the "Bundesanzeiger" of the German Federal Republic Nr. 60 of March 26, 1996.

BASF Aktiengesellschaft 67056 Ludwigshafen

The Telecommunications Corporation U.S. \$50,000,000 Floating Rate Bonds due 2002... Reconstruction and Development

BANQUE NATIONALE DE PARIS Programme for the Issuance of Debt Instruments USD 3,000,000

TEC-MINERAL INC. 3,640,000 Units Price: \$2.75 per Unit Yorkton Securities Inc. Marleau, Lemire Securities Inc.

We are pleased to announce that: Andrew M. Blum has been named Chairman Unterberg Harris International Unterberg Harris New York San Francisco



COMPANIES AND FINANCE: EUROPE

Argentaria hails 'success' of \$1.1bn share issue

By Tom Burns in Madrid

The \$1.1bn secondary share issue by the Spanish state of a 25 per cent stake in Argentaria, the Spanish bank, was hailed as a success by its chairman, Mr Francisco Luzón yesterday, but was greeted with caution by analysts.

"We reduced the international allocation because I wanted quality, stable shareholders and because I wanted to meet the domestic retail demand," Mr Luzón said.

The domestic institutional allocation was 3.1 times oversubscribed. Mr Luzón said Argentaria had been able to rebuild selectively the stable core shareholding of international institutions which it created when it first placed the global markets in 1993.

Argentaria's chairman said, "I have high quality institutional shareholders who have good research and who know the company well."

Before the March 3 polls the banking's group's shares had been trading in Madrid at Pta5,540.

"Institutions may have liked Argentaria's fundamentals and its price, but they didn't like the political risk," said Mr Frederick Artesani of the French Oddo group's broking unit in Madrid.

NEWS DIGEST

Ambroveneto lifts annual profit 35%

Banco Ambrosiano Veneto, one of Italy's largest banks, increased net consolidated profit by L47bn to L160.4bn (\$114m) in 1995, a rise of 35 per cent.

Cariplo, one of Italy's largest banks, has appointed Lehman Brothers of the US to advise it on its stock market flotation, which should take place later this year.

Belgian bank slips

Groupe Bruxelles Lambert, the Belgian bank, said its net profit fell from BF6.83bn in 1994 to BF6.6bn (\$217m) last year.

The company said it expected the trend for this year's results to be positive but this would naturally depend on the profits of its subsidiaries.

The largest profit contributor was GBL's investment in Petrofina, the Belgian oil group, with BF1.78bn, against BF965m.

Arbed surges

Arbed, the Luxembourg steel group, said its net profit after minority interests rose from LF366m in 1994 to LF3.7bn (\$121m) on sales up 25 per cent to LF257.1bn.

The group said the year was very satisfactory for most markets, although demand fell in the second half, leading to a rise in stocks.

UAP tumbles into the red after provisions

By David Buchan in Paris

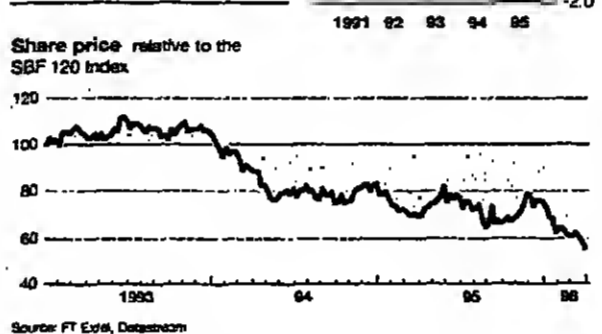
UAP, the French insurance group, last night announced its first full-year loss. It reported a deficit of FF2.06bn (\$407m) for 1995, due to heavy provisions for property holdings and loans, and to lower capital gains to offset them.

UAP turnover rose by 4 per cent to reach FF157.6bn last year. But stripping out the effect of integrating Provincial, the UK Insurance company, and of SCOR, the French reinsurer, into group accounts, turnover showed a real decline of 0.4 per cent last year.

Mr Friedmann forecast for this year that UAP would still require "more rigour in our management to put the group durably back into profit from 1996 onwards", although the board had decided to maintain the dividend at the 1994 level of FF4.50 per share.

COMPANY PROFILE: UAP

Table with 2 columns: Metric and Value. Includes Market capitalisation (\$6.5bn), Main listing (Paris), Historic P/E (23.7), Gross yield (2.8%), Earnings per share (FFr 5.4), Current share price (FFr 107.2), Net profit (FFr bn) 4.0, and Share price relative to the S&P 120 index.



Source: FT Com, Dataquest

Ciba may drop research into heart drug

By Daniel Green

Ciba, the Swiss drugs company, may drop one of its most promising drugs, Revasc, from its heart disease research programme after disappointing trials results.

The drug may still be used in another area, blood clots in veins, but one analyst at a London stockbroker is reducing his forecasts for Ciba sales in 2000 by SF2,000m (\$167m), or about 2 per cent of sales.

Revasc was tested in comparison with Heparin, a cheap alternative already on the market, in a study involving 12,000 patients.

But the future of the class of drugs to which Revasc belongs remains unclear after Biogen, a US biotechnology company, said yesterday that its drug, Hirulog, had shown a statistically significant improvement compared with Heparin in opening blood vessels of patients suffering heart attacks.

The two drugs are closely related chemicals and differ mainly in their mode of manufacture. Ciba said that Revasc had proven twice as effective as standard Heparin in reducing deep vein thrombosis, a smaller market than heart disease.

Renault truck and bus division doubles to FF712m

By Haig Simonian, Motor Industry Correspondent

Renault VI, the truck and bus division of France's state-controlled vehicles group, accelerated its financial recovery by more than doubling 1995 net profits from FF343m to FF712m (\$141m).

where sales climbed 23 per cent to FF22.1bn and operating profits jumped from FF42m to FF696m.

However, the company warned that markets this year would be more difficult. Mr Shémaya Levy, managing director, said European demand for trucks of more than 5 tonnes could stagnate at about 260,000 units, after a slowdown in new orders in the second half of 1995.

fall as much as 30 per cent, to about 165,000 units. However, the company said it was well set to face "a 1996 which could be less favourable, in market terms, than 1995".

save on investment spending and to raise productivity by improving the co-operation between its European and US operations, and by launching selective joint ventures with outside partners.

Commerzbank to develop investment banking

By Andrew Fisher in Frankfurt

Commerzbank has ended its search for a reasonably-priced investment banking acquisition and will develop this side of its business from its own resources, Mr Martin Kohlhaussen, the chairman, said yesterday.

acquisition if the opportunity arose, Mr Kohlhaussen said: "There is no suitable company for a takeover, at least not at an acceptable price."

helped by growth in securities business. Mr Kohlhaussen said own-account financial trading had developed well after last year's 330 per cent rise to DM455m (\$307.9m).

It has already announced a 109 per cent rise in 1995 operating profits to DM1.45bn after risk provisions, with net income 7.2 per cent lower at DM379m because 1994 results were buoyed by asset sales.

Advertisement for Butagaz International B.V. and Shell Gas Romania S.A. The ad features logos for Shell, PECO, and Capital S.A. and states that they have established a joint venture. It also mentions that the undersigned acted as financial advisor to Butagaz International B.V. and that Capital S.A. is an affiliate of Wasserstein Perella & Co. The date is March 1996.

Advertisement for Industrias Unidas, S.A. de C.V. offering floating rate notes due 1996 to 1999. The rate of interest for the period 27th March 1996 to 27th March 1997 has been fixed at 11.15 per cent per annum. Interest payable 27th March 1997 will amount to US\$10,905.23 per Note.

Advertisement for Fleet Finance Group offering Subordinated Capital Notes Due 1999. For the three months 27 March 1996 to 27 April 1996 the notes will carry an interest rate of 8.50% per annum and coupon amount of US\$4.15 per US\$1,000.00 of Note.

LEGAL NOTICES: CENTERCORE (UK) LIMITED NOTICE IS HEREBY GIVEN pursuant to Section 96 of the Insolvency Act 1986 that a meeting of the creditors of the above named company will be held at York House, 190 Westminster Bridge Road, London SE1 7UT on the 29th day of March 1996 at 11.30 am for the purposes, if thought fit, of nominating a Liquidator and of appointing a Liquidation Committee. Any proxy to be used at the meeting must be lodged at Beckett House, 1 Lambeth Palace Road, London SE1 7EU not later than 12 noon on the business day before the meeting. A statement of claims must also be lodged. Dated this 13th day of March 1996. G Mitchell Director.

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Advertisement for Samsung Display Devices Co., Ltd. offering 0.25% Convertible Bonds due March 12, 2006 (Convertible into Common Shares). Offering Price: 100% plus accrued interest, if any, from March 12, 1996. The ad lists several financial institutions as underwriters, including Goldman Sachs (Asia) L.L.C., SsangYong Securities Europe Limited, Salomon Brothers International Limited, Bayerische Landesbank Girozentrale, Jardine Fleming, Sunkyong Securities Limited, SBC Warburg, Dresdner Bank - Kleinwort Benson, Lehman Brothers, and S.G. Warburg & Co. Inc. The date is March 12, 1996.



## COMPANIES AND FINANCE: ASIA-PACIFIC/INTERNATIONAL

## Citic Pacific ahead 20% for year

By John Riddling in Hong Kong

Citic Pacific, the Hong Kong-listed arm of China's flagship investment company, yesterday announced a 20 per cent increase in net profits for 1995 and outlined plans for significant investments this year.

Unveiling net profits of HK\$3.07bn (US\$397m), Mr Larry Yung, chairman, said he expected investments of HK\$5bn-HK\$10bn in 1996.

He added that the group was examining several infrastructure projects. Such work is playing an increasing part in the group's activities, raising its share of profits from 5 per cent in 1994 to 16 per cent. Franchises on two bridges in Shanghai contributed a full

year's earnings, as did the Da Pu road tunnel in the city.

Mr Henry Fan, managing director, said most of the group's activities had seen satisfactory growth. The exception was Dah Chong Hong, the trading and distribution arm, which was hit by a sharp fall in car sales. In response, Citic Pacific said it was cutting costs and increasing efficiency.

The net result was buoyed by contributions from the conglomerate's investments in Hongkong Telecom and Cathay Pacific, the Hong Kong-based airline. After September's sale of a 2.5 per cent stake in Cathay, Citic Pacific holds 10 per cent in each company. Mr Yung said the reduction of the stake in Cathay, and the depar-

ture of himself and Mr Fan from the board of the airline, did not signal a distancing from the Swire group, Cathay's parent and Citic's ally in property and industrial activities. "We still have a lot of co-operation," said Mr Yung. "The relationship is as before."

Speculation about strains in the relationship has centred on aviation activities. Citic and Cathay are the dominant shareholders in Dragonair, a Hong Kong based-carrier, which faces the prospect of competition from CNAC, the airline arm of the Chinese aviation authority.

Industry analysts believe the boardroom manoeuvres at Cathay are an attempt by Citic to establish its independence

in the aviation sector.

Mr Yung was guarded on the possibility of a stockmarket flotation for Dragonair and on the prospect of selling a stake in the carrier to CNAC. However, he indicated Citic had expansion plans for the airline, saying that Dragonair would continue to press vigorously for the right to fly to more destinations and with greater frequency to existing destinations.

In 1995, the airline had raised both sales and profits, said Mr Yung. Citic's aviation activities represented 19 per cent of profits last year, compared with 28 per cent from telecoms, 21 per cent from property and 11 per cent from bridges and tunnels. Total turnover fell from

## Citic Pacific

Share price relative to the Hang Seng Index



Source: FT Data

HK\$12.12bn to HK\$10.84bn, reflecting the downturn in the trading and distribution arm. Earnings per share increased 15 per cent to 132.6 cents, while the total dividend for the year was raised by the same proportion to 55 cents.

## Israel group at record before shake-up

By Julian Ozanne in Jerusalem

Africa Israel, an Israeli conglomerate involved in insurance, property and tourism, yesterday announced record annual profits.

The improved performance comes as the company braces itself for a restructuring in the wake of new banking regulations forcing Bank Leumi, Africa Israel's biggest shareholder, to reduce its stake in the company from 55 per cent to 25 per cent by the end of this year.

The company said group net income for the period ending December 31 1995 rose 51 per cent, from Shk\$68m a year ago to Shk\$103.1m (Sh3.3m).

Group turnover rose 8 per cent, from Shk\$3.2bn in 1994 to Shk\$3.5bn.

Operating profit advanced 24 per cent, from Shk\$3m last year to Shk\$11m.

Africa Israel said the main improvement in profitability could be attributed to investment income, which amounted to Shk\$22.1m, a turnaround from investment losses of Shk\$7.8m in 1994.

In addition, sharp improvements were recorded by Leumi insurance holdings, Africa Israel's insurance subsidiary, and Africa Israel Hotels, its hotel subsidiary, which operates under the trade name Holiday Inn and is expanding rapidly.

The company also said it sold a record number of apartments in 1995, at higher prices than 1994, and that 2,500 apartments were under construction at the end of the year.

Clal Israel, one of the country's biggest holding companies, announced yesterday that net profit for the period ending December 31 1995 rose 63 per cent, from Shk\$184m a year ago to Shk\$184m.

Revenue in 1995, excluding insurance income, rose from Shk\$4.5bn in 1994 to Shk\$4.8bn. Clal Israel is the parent company of the Clal Group and is involved in industry, trade, services, construction and the capital and financial markets.

## NEWS DIGEST

## 3I, IBJ complete Japanese buy-out

3I, a joint venture between 3I, the UK venture capital company, and Industrial Bank of Japan, one of Japan's leading banks, has completed the financing of its largest Japanese management buy-out.

Management buy-outs are rare in Japan, and this project - the purchase of Transtac, an importer of computer software and related equipment, from its owner, the Hong Kong-based Swire group - is only the fourth such deal in the country's history. All the previous ones have been small in comparison.

The value of this purchase was not revealed, but Transtac has annual sales of about ¥2.2bn (\$20m). 3I in Tokyo said the deal marked the first of what it expected to be a succession of similar projects over the next few years. Last year it said it intended to step up its efforts to develop the moribund MBO market in Japan.

But the enduring reluctance of big Japanese companies to dispose of any of their subsidiaries suggests that, in the foreseeable future, any business is likely to come mainly from foreign companies, such as Swire, and from smaller Japanese businesses.

"Larger Japanese companies tend to be more preoccupied with sorting out their own basket-case subsidiaries, and are less interested in the possibilities of management buy-outs of moderately successful companies," 3I said.

Gerard Baker, Tokyo

## Hongkong Telecom in Taiwan deal

Hongkong Telecom, the colony's former monopoly supplier of domestic fixed-line telecommunications, has taken a 26 per cent stake in Taiwan Telecommunication Network Services, the biggest private value-added telecoms service operator in Taiwan. TTNS is a private company, and Hongkong Telecom did not disclose the cost.

The deal is in line with Hongkong Telecom's desire to exploit opportunities in Taiwan and diversify its business away from Hong Kong, where competition has grown on all fronts, including international calls and mobiles. Hongkong Telecom, which is majority owned by Cable & Wireless of the UK, lost its exclusive domestic franchise last July and has seen its international monopoly eroded by call-back services run by, among others, the three new entrants to the domestic market.

TTNS plans to become a full service provider once the industry in Taiwan is fully deregulated. This year it plans to apply for paging and very small aperture terminal (VSAT) licences and, in 2001, long distance and IDD licences.

Louise Lucas, Hong Kong

## Singapore Land slips on tax rise

Singapore Land, one of the country's biggest owners of commercial properties, recorded a fall in net profit of 3.9 per cent to S\$2.4m (US\$36.6m) for the year ended December 31 1995.

Revenue was S\$122.6m, against S\$132.1m. The company's net tangible asset value rose 14 per cent to S\$10.84. Its shares closed 30 cents higher yesterday at S\$1.30.

Singapore Land, part of United Industrial, said average occupancy in its investment properties rose marginally to 97 per cent as a result of continued demand and shortage of prime office space.

It added that operating profit fell because of higher property taxes. However, it said the office rental market looked encouraging and it hoped to maintain its profits. The dividend is unchanged at 10 cents.

AP-DJ, Singapore

## Henderson Land upbeat after first-half rise

By Louise Lucas in Hong Kong

Henderson Land Development, one of Hong Kong's biggest property groups, yesterday reported a 5.6 per cent rise in net earnings at the halfway stage and sounded an optimistic note for the full year.

Net earnings rose from HK\$3.8bn in the six months to December 31 1994 to HK\$4.01bn (US\$519m). Some analysts had been expecting a decline in earnings.

The company, which at the year-end had a development

land bank of 15.1m sq ft (excluding investment and China properties), increased its share of rental income this year - at HK\$593m, up 45 per cent on the same period last year. The portfolio of investment properties amounted to about 3m sq ft.

Mr William Wong, company secretary, added his voice to the chorus of developers and property analysts who believe the property market has bottomed out.

He said activities in the property market, which had made a

slow start to the year, took a positive turn at the end of last year, led by a gradual recovery in the residential sector. Prime office buildings had also seen a slight pick-up.

Earnings per share improved 5.6 per cent, from HK\$2.38 in the final six months of 1994 to HK\$2.51 in the same period last year. Directors are recommending a 20 per cent increase in the dividend, from 50 cents to 60 cents.

Mr Wong was optimistic for the full year, pointing to falling interest rates and the con-

tinued steady growth expected in the local economy. Supply of new flats from the private sector has been forecast to fall below 20,000 units this year, substantially lower than the historical 10-year average of about 30,000 units a year, while the population is continuing to grow - a good balance for developers.

The group also reported results for Henderson China, its newly spun-off arm for China property projects which now has 22 developments. Trading in Henderson China

shares is due to start tomorrow. The company said its interim profits improved 1.4 per cent from HK\$11.54m in the last six months of 1994 to HK\$11.7m last year.

Henderson Investment, an associate company, more than doubled its net profits, from HK\$25.37m in the last six months of 1994 to HK\$134m in the same period last year. Earnings per share rose from 24 cents to 52 cents, but the dividend is to be lifted only 18 per cent, from 11 cents to 13 cents.

## Amcor to expand paper production

By Nikki Tait

Amcor, the Australian paper and packaging group with growing interests in Europe and North America, is to invest A\$360m (US\$294m) to expand its fine-paper manufacturing facilities in Victoria and Tasmania. The money will be spent over three-and-a-half years.

Amcor said it would build a 160,000 tonne-a-year paper machine, to produce printing and writing papers at Maryvale in Victoria from September 1998. To support the increased production, it will expand eucalyptus plantations in the

state by 150 per cent, to 30,000 hectares. About A\$30m of the total expenditure will take place at Maryvale.

Amcor also plans to upgrade two mills in Tasmania, allowing it to manufacture a higher proportion of high-value coated papers.

The company later denied market rumours of a rights issue.

Glencore, the Swiss-based commodity trading group, was yesterday understood to have picked up a 14.9 per cent stake in Gold Mines of Australia, the Perth-based mining group, through stockmarket purchases.

## CBA warns on share buy-back

By Nikki Tait in Sydney

Commonwealth Bank of Australia warned that its favoured plan to buy back A\$1bn (US\$774m) of shares would depress earnings in the next financial year.

CBA said last May it was considering the buy-back, shortly after the then Labor federal government announced plans to float off its remaining 50.4 per cent stake in the bank on the stock market. The sale is expected to raise about A\$4bn for the government.

Since then, Labor has been replaced by a conservative coalition government, but the new administration is eager to pursue the sale as quickly as

possible. CBA said yesterday it was holding talks with the government.

But it warned that if it pursued the buy-back option - which would make the government's sales task significantly easier - earnings in 1996-97 would be reduced by about A\$43m after tax.

Nevertheless, directors said they still favoured the move, pointing out that it would increase earnings per share and lift the return on shareholder funds.

Last month, the bank warned that pressure on earnings was likely in 1996-97, but profitability should "remain satisfactory".

Yesterday, it explained that next year's earnings growth

would be "positive but modest". But it could not "rule out the possibility of significant new price competition in the domestic home loan market. For each 10 basis points reduction in the bank's margin on standard variable home loans, the initial annualised after-tax effect on earnings would be a reduction of up to approximately A\$12m."

This would improve to approximately A\$5m over the next two years, because of "offsetting changes in interest margins generally".

In the last financial year, CBA made an after-tax profit of A\$932.2m. In the first half of 1995-96 it reported profits of A\$415.9m, up 15.3 per cent on the same period a year earlier.

All of these securities having been sold, this advertisement appears as a matter of record only.

March 1996

## XEIKON

7,360,000 American Depositary Shares

Representing

7,360,000 Bearer Shares of Common Stock

This portion of the underwriting was offered outside the United States by the undersigned.

2,208,000 American Depositary Shares

ALEX. BROWN & SONS  
INTERNATIONAL

COWEN &amp; COMPANY

PRUDENTIAL-BACHE SECURITIES

ABN AMRO HOARE GOVETT

BANQUE BRUXELLES LAMBERT S.A.

DEUTSCHE MORGAN GRENFELL

ROBERT FLEMING &amp; CO. LIMITED

INDOSUEZ CAPITAL

KB-SECURITIES STOCKBROKERS

SBC WARBURG  
A DIVISION OF SWISS BANK CORPORATION

This portion of the underwriting was offered in the United States by the undersigned.

5,152,000 American Depositary Shares

ALEX. BROWN & SONS  
INCORPORATED

COWEN &amp; COMPANY

PRUDENTIAL SECURITIES INCORPORATED

DEAN WITTER REYNOLDS INC.

DONALDSON, LUFKIN & JENNETTE  
SECURITIES CORPORATION

HAMBRECHT &amp; QUIST LLC

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MERRILL LYNCH &amp; CO.

J.P. MORGAN &amp; CO.

OPPENHEIMER &amp; CO., INC.

PAINWEBBER INCORPORATED

ROBERTSON, STEPHENS &amp; COMPANY LLC

SALOMON BROTHERS INC.

SCHRODER WERTHEIM &amp; CO.

SMITH BARNEY INC.

ADAMS, HARKNESS &amp; HILL, INC.

ARNHOLD AND S. BLEICHOEDER, INC.

AUERBACH, POLLAK &amp; RICHARDSON, INC.

COMMONWEALTH ASSOCIATES

CROWELL, WEEDON &amp; CO.

FURMAN SELZ

JANNEY MONTGOMERY SCOTT INC.

LADENBURG, THALMANN &amp; CO. INC.

PIPER JAFFRAY INC.

RAYMOND JAMES &amp; ASSOCIATES, INC.

UNTERBERG HARRIS

VAN KASPER &amp; COMPANY

WHEAT FIRST BUTCHER SINGER

## ROBECO GROUP

## ROBECO N.V.

(Investment company with a variable capital)

## ANNUAL GENERAL MEETING OF SHAREHOLDERS

to be held on Friday, 26th April, 1996, at Concert and Congress building "de Doelen", entrance Kruisplein 30, Rotterdam, at 9.30 hours.

## AGENDA

1. Opening
2. To receive and adopt the Report of the Management Board for the financial year 1995
3. To receive and adopt the Annual Accounts for the financial year 1995
4. To determine the appropriation of the profit
5. To compose the Board of Supervisory Directors
6. To compose the Board of Directors
7. Any other business

Copies of the full agendas and of the Annual Reports for 1995 can be obtained from National Westminster Bank PLC, NatWest Investments, Centralised Securities Office, Basement, 24 Prescot Street, London E1 8BB or Robeco U.K. Limited, 4 Carlos Place, Mayfair, London W1Y 5AE. Telephone: 0171-409 3507.

Holders of Bearer Share Certificates desirous of attending or being represented at the Meeting, should lodge their Certificates by hand (postal deliveries will not be accepted for voting purposes) with the National Westminster Bank PLC, NatWest Investments, Centralised Securities Office, Basement, 24 Prescot Street, London E1 8BB (between the hours of 10 a.m. and 2 p.m.) in exchange for a receipt, not later than Friday, 19th April, 1996.

Beneficial owners whose Bearer Share Certificates are presently deposited with a Bank must obtain a Certificate of Deposit signed by the Bank as evidence that such Bank is holding the Certificates. The Certificate of Deposit must be lodged against receipt, by that Bank, with the National Westminster Bank PLC, in accordance with the requirements stated above.

The receipt for Bearer Share Certificates or Certificate of Deposit will constitute evidence of a shareholder's entitlement to attend and vote at the Meeting and should be presented at the door of the Meeting Hall. If a holder desires to appoint a proxy, who need not be a member of the Company, to attend and vote in his stead, a form of proxy may be obtained from the National Westminster Bank PLC at above and this form of proxy must be presented at the door of the Meeting Hall together with the receipt for the Bearer Share Certificates or Certificate of Deposit.

Beneficial owners of Sub-share Certificates registered in the name of National Provincial Bank (Nominees) Limited desirous of attending or being represented at the Meeting must obtain a receipt or Certificate of Deposit in the same way as holders of Bearer Share Certificates. If they desire to attend the Meeting in person or to be represented they must obtain a form of proxy signed by National Provincial Bank (Nominees) Limited, which form must be presented at the door of the Meeting Hall together with the receipt exchanged for the Sub-share Certificates or Certificate of Deposit.

Beneficial owners of Sub-shares registered in any name other than that of National Provincial Bank (Nominees) Limited, holders of Registered Full Shares and Shareholders who maintain a Shareholder's Account with the Company wishing to attend and vote at the Meeting or to appoint a proxy to attend and vote in their stead, must signify their intention in writing to the Secretary of Robeco N.V. or Robeco N.V. (whichever is applicable), Coolingsteig 120, NL-3011 AG Rotterdam, Netherlands, not later than Friday, 19th April, 1996.

Service contracts are not entered into with the Directors, who hold office in accordance with the Articles of Association.

BY ORDER OF THE MANAGEMENT

ROTTERDAM

Dated this 27th day of March, 1996

## ROLINGO N.V.

(Investment company with a variable capital)

## ANNUAL GENERAL MEETING OF SHAREHOLDERS

to be held on Friday, 26th April, 1996, at Concert and Congress building "de Doelen", entrance Kruisplein 30, Rotterdam, at 11.45 hours.

## AGENDA

1. Opening
2. To receive and adopt the Report of the Management Board for the financial year 1995
3. To receive and adopt the Annual Accounts for the financial year 1995
4. To determine the appropriation of the profit
5. To compose the Board of Supervisory Directors
6. To compose the Board of Directors
7. Any other business

Copies of the full agendas and of the Annual Reports for 1995 can be obtained from National Westminster Bank PLC, NatWest Investments, Centralised Securities Office, Basement, 24 Prescot Street, London E1 8BB or Robeco U.K. Limited, 4 Carlos Place, Mayfair, London W1Y 5AE. Telephone: 0171-409 3507.

Holders of Bearer Share Certificates desirous of attending or being represented at the Meeting, should lodge their Certificates by hand (postal deliveries will not be accepted for voting purposes) with the National Westminster Bank PLC, NatWest Investments, Centralised Securities Office, Basement, 24 Prescot Street, London E1 8BB (between the hours of 10 a.m. and 2 p.m.) in exchange for a receipt, not later than Friday, 19th April, 1996.

Beneficial owners whose Share Certificates are presently deposited with a Bank must obtain a Certificate of Deposit signed by the Bank as evidence that such Bank is holding the Share Certificates. This Certificate must be lodged against receipt, by that Bank, with the National Westminster Bank PLC, in accordance with the requirements stated above.

The receipt for the Share Certificates or Certificate of Deposit will constitute evidence of a shareholder's entitlement to attend and vote at the Meeting and should be presented at the door of the Meeting Hall. If a holder desires to appoint a proxy, who need not be a member of the Company, to attend and vote in his stead, a form of proxy may be obtained from the National Westminster Bank PLC at above and this form of proxy must be presented at the door of the Meeting Hall together with the receipt for the Share Certificates or Certificate of Deposit.

Shareholders who maintain a Shareholder's Account with the Company, wishing to attend either of both Meetings, or to appoint a proxy in their stead, must signify their intention in writing to the Secretary, Robeco N.V. c/o Aviretto B.V., Coolingsteig 120, NL-3011 AG Rotterdam, Netherlands, to arrive not later than the dates indicated above.

Although proxies may attend, votes will not be cast at the Informative Meeting.

Copies of the full agendas and of the Annual Reports for 1995 can be obtained from National Westminster Bank PLC at the address shown above or Robeco U.K. Limited, 4 Carlos Place, Mayfair, London W1Y 5AE. Tel: 0171-409 3507.

Service contracts are not entered into with the Directors, who hold office in accordance with the Articles of Association.

BY ORDER OF THE MANAGEMENT

ST. MARTEN

Dated this 27th day of March, 1996.

## RORENTO N.V.

(Investment company with a variable capital)

## INFORMATIVE MEETING FOR SHAREHOLDERS

to be held on Friday, 26th April, 1996, at Concert and Congress building "de Doelen", entrance Kruisplein 30, Rotterdam, at 14.30 hours.

## AGENDA

1. Opening
2. To discuss the Report of the Management Board for the financial year 1995
3. To discuss the Annual Accounts for the financial year 1995
4. To discuss the appropriation of the profit
5. To discuss the remuneration of Supervisory Directors
6. To discuss the composition of the Board of Supervisory Directors
7. To discuss the composition of the Board of Directors
8. Any other business

Holders of Bearer Share Certificates desirous of attending or being represented at the above stated Meetings, should lodge their Share Certificates by hand (postal deliveries will not be accepted) with the National Westminster Bank PLC, NatWest Investments, Centralised Securities Office, Basement, 24 Prescot Street, London E1 8BB (between the hours of 10 a.m. and 2 p.m.) as follows: INFORMATIVE MEETING - NOT LATER THAN FRIDAY, 19TH APRIL, 1996. ANNUAL GENERAL MEETING - NOT LATER THAN MONDAY, 22ND APRIL, 1996. IN EXCHANGE FOR A RECEIPT.

Beneficial owners whose Share Certificates are presently deposited with a Bank must obtain a Certificate of Deposit signed by the Bank as evidence that such Bank is holding the Share Certificates. This Certificate must be lodged against receipt, by that Bank, with the National Westminster Bank PLC, in accordance with the requirements stated above.

The receipt for the Share Certificates or Certificate of Deposit will constitute evidence of a shareholder's entitlement to attend and vote at the Meeting and should be presented at the door of the Meeting Hall. If a holder desires to appoint a proxy, who need not be a member of the Company, to attend and vote in his stead, a form of proxy may be obtained from the National Westminster Bank PLC at above and this form of proxy must be presented at the door of the Meeting Hall together with the receipt for the Share Certificates or Certificate of Deposit.

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Service contracts are not entered into with the Directors, who hold office in accordance with the Articles of Association.

BY ORDER OF THE MANAGEMENT

ST. MARTEN

Dated this 27th day of March, 1996.



COMPANIES AND FINANCE: AMERICAS

NEWS DIGEST

Property families in US retail merger

Two of the wealthiest real estate families in the US have announced a plan to merge their publicly-traded retail property holdings...

Setback for Merck drug

Merck, the largest US drugs company, has issued a warning on its osteoporosis drug Fosamax, which was approved late last year...

Calgary energy group in play

Calgary-based Sceptre Resources has put itself up for sale, the latest move in a spate of takeovers and mergers in western Canada's energy industry...

Danone expands in Brazil

French food group Danone has bought a 25 per cent stake in Brazilian biscuit maker Aymore. Financial details were not disclosed...

Elecar slices dividend

Electricidad de Caracas (Elecar), the Venezuelan utility, announced net profits of Bs1.64bn (\$71.2m) for the year ended December 31 1995...

Norcen disposals gather pace

Norcen, the energy arm of Toronto's Hees-Edper group, has completed the sale of C\$160m (US\$117.5m) of non-essential assets...

Slabec, the former Quebec-owned steelmaker acquired in August 1994 by the legal international mini-mill group, posted record 1995 net profit of C\$103.8m...

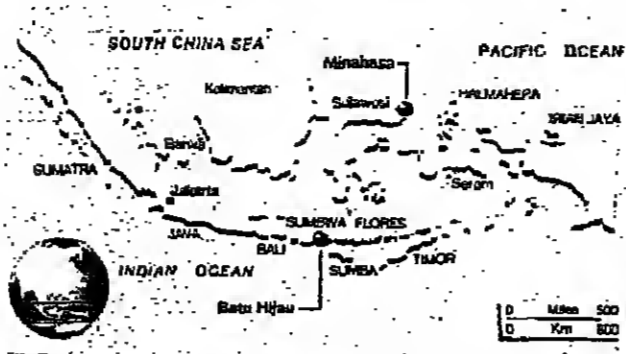
CSFB loses Wade to Lehman

A former Credit Suisse First Boston managing director has joined Lehman Brothers to head the private placements and capital markets project finance group...

Sumitomo joins Newmont venture

By Kenneth Gooding, Mining Correspondent

Newmont Gold of the US has selected Sumitomo Corporation of Japan to be its partner in the Batu Hijau project in Indonesia...



Although it is the richest discovery Newmont has made in its long history, Batu Hijau posed problems for the company. It is in a remote area, so the capital requirements are significant...

Currency losses push CESP into red

By Angus Foster

CESP, the Brazilian electricity generator and distributor controlled by the state of São Paulo, yesterday announced a sharp swing from profit into loss...

CESP benefited in 1994 from R\$1.16bn of inflation and exchange rate gains, when the Brazilian Real appreciated against the US dollar...

Surge in cellular sales drives 18% rise at Telebrás

By Angus Foster in São Paulo

Growth in cellular services helped drive an 18 per cent increase in consolidated net profits at Telebrás. Brazil's state-controlled telecommunications company...

on a tariff reduction in late 1994, which led to big increases in traffic but lower revenues. International traffic rose 44 per cent from 1994...

Advertisement for German Pfandbriefe. Features a large image with the text 'You want a pick-up on yield.' and a list of German mortgage banks.

Advertisement for The German Pfandbrief. Includes the text 'Solid from the ground up' and a logo of a hand holding a brick.

Vertical text on the left margin: 'plete y-out', 'venture capital', 'computer software', 'small in the country', 'Tokyo said', 'Last year it said', 'more pre-occupied', 'Gerard Baker', 'Taiwan deal', 'com's desire to', 'wider base the', 'tax rise', 'UP', 'GENERAL MEETING', 'MOUNERS'.



COMPANIES AND FINANCE: UK

Charter seeks purchase to cut Esab dependence

By Tim Burt
Charter, the industrial engineering group, is contemplating a big acquisition to reduce its dependence on Esab, the Scandinavian welding products business, acquired for \$445m (\$680m) in 1994.

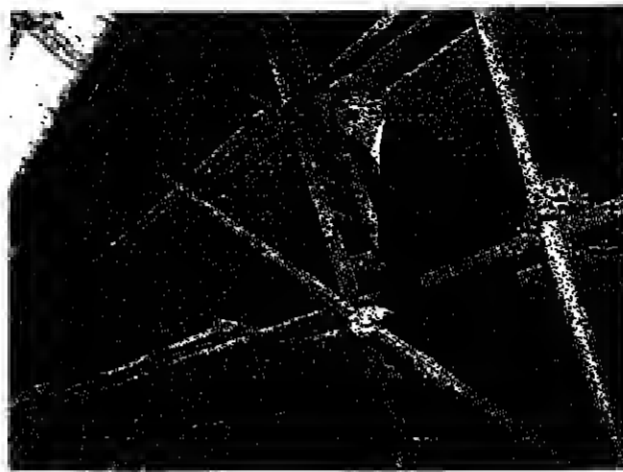
Market cheered by optimistic comments on prospects

Taylor Woodrow plans property sale

By Andrew Taylor, Construction Correspondent

Taylor Woodrow yesterday signalled plans to sell about a third of its £350m (\$550m) UK commercial property investment portfolio as part of a restructuring of its international construction and property businesses.

said the proceeds of the commercial property sale would be reinvested in higher yielding assets such as housing land in the US and UK as well as investment in commercial property developments for sale which "generate higher returns than renting".



Colin Parsons: property proceeds to be reinvested in other assets

The stock market was also cheered by the group's optimistic comments about prospects as well as a 50 per cent rise in the final dividend to 2.25p. The interim had been held at 0.75p.

Mr Parsons said Taylor Woodrow, at the end of December, still had gearing of only 24.7 per cent. "This is a strategic decision. It is not a fire sale and we will not sell properties unless we receive a realistic price."

about prospects for the struggling construction division which last year lost £3.9m after a \$8.2m restructuring charge in the UK.

Write-offs push Meggitt into loss

By Tim Burt
Meggitt, the restructured engineering group, yesterday announced goodwill write-offs totalling £37.6m (\$57m) following a raft of disposals and plant closures.

Halifax BS considers further buys

By Alison Smith, Investment Correspondent

Halifax Building Society, the UK's largest mortgage lender, has signalled an interest in making further acquisitions after its planned flotation next year.

base. It could issue subordinated debt, or raise fresh equity on flotation.

Mr Jon Foulds, chairman, said yesterday that it would be strategically advantageous to have surplus capital "at a time of considerable rationalisation in the personal financial services industry."

Hamleys plans overseas growth

By Peggy Hollinger

Hamleys, the toy retailer, yesterday announced a 13 per cent jump in pre-tax profits and unveiled plans to open replicas abroad of its famous store in Regent Street, London.

Gulf region in the next 18 months. If that proves successful, further selective town centre openings overseas are planned.

"This is the fourth successive year of considerable growth with all outlets trading profitably and the company is in a strong financial position," he said.

£45m war chest at Lloyd Thompson

By Ralph Atkins, Insurance Correspondent

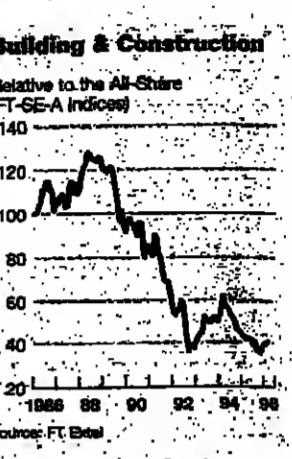
Lloyd Thompson, the insurance broker, yesterday reported pre-tax profits up 14 per cent at £10.1m (\$16m) in the six months to December.

to soften with particularly dramatic reductions for off-shore oil businesses and some marine policies.

LEX COMMENT

UK construction

Taylor Woodrow's results provide compelling evidence that the best place to be in the UK construction industry is overseas.



Contractors are at least concentrating more on niche markets rather than wholesale competition, but the recovery is going to be very slow.

The push offshore has created opportunities for reinvesting a chunk of its low yielding £350m UK property portfolio.

NEW LOOK



Funding of £221 million for the institutional purchase of New Look Limited.

Led, Negotiated and Arranged by BZW Private Equity Limited

Institutional Equity Co-Underwritten by BZW Private Equity Limited Prudential Venture Managers Limited

Senior Debt led by Samuel Montagu & Co. Limited

and co-underwritten by Bank of Scotland

Legal Advisers Cameron Markby Hewitt (Newco and Equity) Lovell White Durrant (Senior debt) Eversheds, London (Management)

Financial Advisers Coopers & Lybrand (Investigating Accountants)

December 1995

DIGEST

Barclays chief's payment up 13%

Mr Martin Taylor, chief executive of Barclays, which this week announced a further 1,000 redundancies in its retail banking operations, received £791,000 (£1.21m) in total remuneration last year, a 12.8 per cent rise on the 1994 figure of £700,000.

M&S looks at Asia expansion

Marks and Spencer is investigating the possibility of opening stores in Australia, Korea and Taiwan.

Job fears at Camas

More than a sixth of road surfacing workers employed by Camas, Britain's sixth largest aggregates company, could be axed over the next year as a result of government spending cuts, the company warned yesterday.

Lloyds TSB plans underwriter

Lloyds TSB is considering setting up a general insurance underwriting business to service the whole group. The move would replace the group's diverse arrangements through which various parts of the group sell policies of different insurances.

Table with columns: Company Name, Turnover (£m), Pre-tax profit (£m), EPS (p), Current payment (p), Date of payment, Dividends (p), Total for year, Total for year. Lists various companies like Allied London, Arcoelectric, Barr & WAT, etc.



COMMODITIES AND AGRICULTURE

Idaho environmental claims anger miners

By Kenneth Gooding

In what the American industry sees as another example of the anti-mining attitude of many US authorities, claims have been lodged seeking hundreds of millions of dollars for alleged environmental damage caused in the Coeur d'Alene silver mining district of Idaho between 1850 and 1955.

The claims, lodged by the US Justice Department, the Environmental Protection Agency, the Department of the Interior and the Department of Agriculture, suggest that more than 70m short tons (63.5m tonnes) of mine waste was dumped into the Coeur d'Alene river and its tributaries.

The federal authorities want the companies to pay to clean up alleged pollution in a 1,500-square-mile (3,800-square-kilometre) area of northern Idaho. The Justice Department said that it had filed the suit because of a lack of co-operation by the companies with government agencies.

The companies reacted angrily to the suit. Asarco and Coeur d'Alene Mines insisted that they had previously resolved the issue. Asarco also complained that the suit, "while naming the few surviving mining companies still operating in the (Coeur d'Alene) Basin, failed to name or to acknowledge the responsibility of the Department of Defence and its predecessors for having actively managed and directed the operation of the mines during world wars I and II and the Korean conflict."

Asarco said that it had resolved the issue in 1985 with the State of Idaho and under that agreement the company had helped to finance a \$4.5m trust fund that was being used "in constructive restoration activities", in the basin. The likely effect of the new litigation would be "to unnecessarily delay basin restoration".

Australian election clears way for uranium projects

The Liberal-National coalition government is committed to scrapping the 'three mines policy', writes Nikki Tait

Clear winners from this month's federal election in Australia have been elusive. But one group that would appear to have gained an outright and immediate benefit is those mining companies sitting on uranium deposits.

For over a decade, they have been constrained by the Labor government's three-mines policy. This was introduced in the 1980s and restricted uranium production to three sites: the Ranger mine in the Northern Territory, operated by Energy Resources of Australia (in turn, controlled by Melbourne's North group); Roxby Downs/Olympic Dam, wholly owned by WMC; and Nabarlek, in Queensland.

Mr Philip Shrivington, ERA's chief executive, believes that the process could be completed within a year. Environmental groups, however, believe there are various technical obstacles - such as the degree of radioactivity in the underground mine. That said, even the ACP admits that it would take "a big fight" to prevent the mine from proceeding.

Despite the fact the Nabelek was worked out several years ago, a new "third site" was never added. The last Labour Party conference flirted with the idea of revising the three-mines policy but the issue was never pursued.

According to a 1994 report commissioned by the Access Economics consultancy firm, this has left Australia accounting about 10 per cent of the world's uranium output, despite possessing about 30 per cent of the West's known low-cost uranium reserves.

More pragmatically, there is also the matter of pricing. RTZ-CRA, the London-based mining group, owns the Kintyre deposit in Western Australia, another likely candidate for development. But Mr Leon Davis, chief operating officer, has warned against expectations of early results.

Gold output boost planned at Guyana's Omai mine

By Carole James in Kingston

Output from Guyana's controversial Omai gold mine is to be increased next year following a US\$86m expansion of its operations, which were restarted in February after being closed for six months following an accident.

A mixture of sand, water and traces of copper mineral are escaping from a mine-out pit at the Marroper mine in the Philippines and is flowing into the Zambo River.

The plant is owned by the Pacer Dome of Canada, which owns 40 per cent of the mine, said yesterday that people were not believed to be at risk but added that mill operations had been halted while measures to stem the flow were attempted.

Placer said residents were not dependent on the river for drinking water but Marroper had hired helicopters to assist people at river crossings "and to help in other ways as required".

The mine has an annual capacity of about 40,000 tonnes of copper.

Omai, which is owned mainly by two Canadian companies, expects to produce 276,000 troy ounces by December, 24,000 ounces more than were produced in almost eight months last year. Output will rise to 300,000 ounces next year.

The mine, located 180km south of Georgetown, Guyana's capital, was closed in August after 3m cubic metres of cyanide-tainted water spilled from a defective tailings pond into nearby rivers. A commission appointed by the Guyana government recommended that the mine should be reopened, but said that improved environmental protection measures should be installed.

The anticipated yield has been increased to 3.6m ounces and the life of the mine has been extended from ten years to 12 years.

A new tailings pond covering 21 hectares (five times as large as that which burst in August) is being built. The construction of the first stage of the pond has been completed, and all measures have been taken to ensure safe and environmentally sound operations," said Cambor.

The discharge of the cyanide waste into the Omai and Essequibo rivers brought increased criticism of the mine's operations from local and foreign environmentalists. The rupture of the pond followed a smaller spill in May of last year. The use of cyanide in processing the gold was also attacked, but the government's commission concluded that there was no alternative.

Sydney wheat futures volume 'exceeds expectations'

By Nikki Tait in Sydney

Trading in wheat futures began on the Sydney Futures Exchange yesterday with 140 contracts changing hands -

which exchange officials said beat their expectations. According to the SFE, the price for July wheat opened at A\$223 a tonne, and closed at A\$229, with the difference

between a bid and offer prices often being little more than \$1. The contract is one of the first to be launched by the SFE since it announced ambitious plans to establish

itself as a regional commodity trading centre. Although the exchange has tended to concentrate on financial products in the past it already runs a wool contract and has also

established a link with the New York Mercantile Exchange, for crude oil trading. Next month, this link will be extended to gold and other metals futures.

Table with 2 columns: Metal, Price. Includes Aluminum, Aluminum alloy, Copper, Lead, Nickel, Silver, Zinc.

COMMODITIES PRICES

BASE METALS LONDON METAL EXCHANGE. Table with 2 columns: Metal, Price. Includes Aluminum, Copper, Lead, Nickel, Silver, Zinc.

PRECIOUS METALS LONDON BULLION MARKET. Table with 2 columns: Metal, Price. Includes Gold, Silver, Platinum, Palladium.

GRAINS AND OIL SEEDS. Table with 2 columns: Commodity, Price. Includes Wheat, Soybeans, Maize, Barley.

SOFTS. Table with 2 columns: Commodity, Price. Includes Cocoa, Coffee, Sugar.

MEAT AND LIVESTOCK. Table with 2 columns: Commodity, Price. Includes Cattle, Pigs, Sheep.

ENERGY. Table with 2 columns: Commodity, Price. Includes Crude Oil, Natural Gas, Heating Oil.

JOTTER PAD. Table with 2 columns: Commodity, Price. Includes various metals and oils.

CROSSWORD

Crossword puzzle grid with clues and solution.

PRECIOUS METALS LONDON BULLION MARKET. Table with 2 columns: Metal, Price. Includes Gold, Silver, Platinum, Palladium.

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Crossword puzzle grid with clues and solution.



INTERNATIONAL CAPITAL MARKETS

Treasuries steady after FOMC meeting

By Lisa Branstetter in New York and Richard Lapper in London
US Treasury prices were relatively steady at lower levels after the Federal Reserve's Open Market Committee left interest rates unchanged after yesterday's meeting.

The benchmark 30-year Treasury was 1/8 lower at 93 1/2 to yield 6.64 per cent, and the two-year note was down 1/4 at 98 1/2, yielding 5.69 per cent.
Yesterday's losses came despite a new indication that consumer spending is not likely to spur economic growth in the near term.

At mid-morning, the Conference Board reported that its index of consumer confidence slipped to 97.7 in March from 98 in February. Most economists had expected the figure to rise modestly to about 99.
"Although consumer attitudes on balance are pretty much neutral, the uneasiness about the job market, coupled with concerns about future levels of income, do not suggest consumers are ready to spend more freely," the Conference Board said.

Mr David Brown, chief European economist at Bear Stearns, said the "likely size of any recapitalisation is not huge but it has spooked BTPs nevertheless, catching the market on the defensive".
Other European high-yielders had a mixed day. Spanish bonds closed marginally higher, with the 10-year yield spread over Germany falling from 333 basis points to 331 points. Swedish bonds closed lower, with the 10-year spread over bunds widening to 209 basis points. The Riksbank's cut in the securities repurchase rate from 7.6 per cent to 7.4 per cent, the seventh this year, had been expected.

Yields on benchmark 10-year bonds rose by 5 basis points, with the yield spread over bunds, which had narrowed to 173 basis points on Monday, widening to 185 points. Yields on benchmark two-year paper closed 7 basis points higher. On Liffe, June long gills closed at 104 1/4, down 1/4.
German bonds closed largely unchanged, with yields falling marginally on 10-year bunds and most shorter-dated paper. The market slipped in early trading, following indications from the Bundesbank that an immediate cut in short-term rates was not on the cards, but later recovered ground. On Liffe, 10-year June futures settled at 96.44, down 0.01.
French figures for household consumption in February were as expected and OATs largely tracked bunds. The 10-year yield spread widened by 2 basis points to 23 points.

France sets long-term interest rate benchmark

By Samer Iskander
The French Treasury, aiming to set a benchmark for long-term interest rates, has announced the creation of "Taux de l'Echecance Constant" (TEC 10), a 10-year constant maturity yield index.
Published on a daily basis under the form of a yield to maturity of a hypothetical OAT with a maturity of exactly 10 years, it will be interpolated from the yields of the two nearest maturities of government bonds, from mid-prices quoted at 10am Paris time by all OAT market-makers. The index will be rounded to the second decimal point.
An existing long-term interest rate index, the TEC, has gained only limited popularity, and mostly among domestic investors. This is due to its complex structure, based on the yields of seven-year to 30-year OATs, weighted by the amounts of these issues.
According to the Treasury, the TEC 10 "is perfectly homogeneous with reference to widely-known US Treasury instruments, the Constant Maturity Treasury (in the US) and Constant Maturity Swaps". This should make the new index more attractive to foreign investors.
Over FF10bn of 10 1/2-year OATs with a quarterly coupon based on the TEC 10 will be issued as soon as next month, if market conditions allow.
The coupon will be set in advance for each quarter. Bonds with 10 1/2-year coupons will behave in a particular manner. Unlike fixed-income securities, their sensitivity to parallel moves of the yield curve is minimal. However, shifts in the shape of the yield curve affect the bonds' prices, which rise when the curve steepens and fall when it flattens.

Banks move fast to finance Jawa power project

By Antonia Sharpe
One of the most rapidly arranged project financings seen in the international loans market for a power project in Indonesia, was launched into general syndication yesterday.
Four banks - Credit Suisse, Dresdner Bank, Sanwa Bank and Toronto Dominion Bank - were mandated last November to arrange the debt financing for the PT Jawa 1,650mw coal-fired power station, which is

50 basis points because it has 95 per cent political and commercial risk cover from Germany's Hermes.
In the fourth \$82m tranche, which is uncovers, margins range from 150 basis points to 190 basis points during its 15-year life, which includes the construction phase.
The third and fifth tranches, amounting to \$250m and \$200m, are being provided by KfW and US institutional investors, respectively, and will not be syndicated.
Bankers expect further project financings over the coming months, and such a trend would be welcomed by those who fear that the recent flood of acquisition-related loans is coming to an end.
Among other loans in the market, a £100m five-year loan facility for Irish Permanent, the Irish building society, was launched into general syndication yesterday.
The facility, arranged by UBS, carries an interest margin of 15 basis points over a Libor interbank rate and is expected to be fully drawn within 60 days of signing.
A \$400m five-year revolving credit facility for Bank Xerox, the office equipment supplier, has been so heavily oversubscribed that the borrower is contemplating an increase of about \$50m.
Other facilities which are thought to be coming to market include a \$500m facility for the National Grid and a \$200m refinancing for E.ON Mining. Both are likely to be arranged by BZW.
First National Bank of Chicago and Lloyds Bank are believed to be arranging a \$200m revolving credit for EPC, the UK consumer finance company, while Bank of Nova Scotia is said to be arranging a \$50m facility for Laura Ashley, the UK fashion chain.

Disney 10-year tranche comes under pressure

By Samer Iskander
The 10-year tranche of Walt Disney's global bonds, issued last Friday, came under pressure yesterday. The spread widened to as much as 50 basis points over Treasuries, from an initial 47 points.
INTERNATIONAL BONDS
One trader said that syndicate members appeared to be selling bonds back to the lead managers, and hinted that the latter were not supporting the issue sufficiently.
However, CSFB, joint lead manager with Merrill Lynch, attributed the widening to "end of quarter pressures" and that, given the strength of Treasuries, the bonds had shown a "good performance". CSFB also said that demand

for the issue had increased as soon as the spread widened.
Abbey National issued \$200m of bonds maturing on December 30 1997. The deal was partly swap-motivated, which necessitated the unusual maturity. Pricing, at 33 basis points over gills, was in line with similar issues. But the lead manager, J.P. Morgan, is confident that demand for short-dated paper should ensure placement with retail investors.
Ginness launched a FF1.6bn deal maturing in November 2002. The proceeds will be used to refinance an existing FF1bn deal maturing this week and to help refinance existing French franc debt.
The lead manager, Societe Generale, said there was good demand for medium-term maturities offering generous terms. Most recent issues have been tightly priced triple-A rated 10-year deals.

The coupon should be in the 2 to 2 1/2 per cent range and the premium around 10 per cent.
A \$300m issue for Companhia Vale do Rio Doce, scheduled to be launched yesterday, was rushed through on Monday afternoon to take advantage of bullish markets. The lead managers, Chase and Chemical, said the issue was oversubscribed, with very strong demand from Europe as well as the US.

NEW INTERNATIONAL BOND ISSUES

Table with columns: Issuer, Amount, Coupon, Price, Maturity, Fees, Spread, Book-runner. Includes entries for US Dollars, Yen, Swiss Francs, French Francs, and Sterling.

Final terms, non-callable unless stated. Yield spread over relevant government bond at launch supplied by lead manager, including 1% commission. 2 Floating-rate notes. 4% annual coupon. R: fixed rate offer price; see shown at offer level. A: 3-month Libor + 4%. B: Floating rate offer. Exchangeable into common shares of Tokai Bank conditional on 100% rule in 1st 5 years. Exchange price clause effective 5/1/01. C: 0.5% Mandatory conversion at maturity. C: Coupons paid in A\$. C: 1/2% 3/1/01, 4% in A\$. 100% 2/25%. D: Redemption in SA. Coupons in Yen. E: 6-month Libor less 1/4%. F: Long 1st coupon. G: Short 1st coupon.

The coupon should be in the 2 to 2 1/2 per cent range and the premium around 10 per cent.
A \$300m issue for Companhia Vale do Rio Doce, scheduled to be launched yesterday, was rushed through on Monday

WORLD BOND PRICES

Table with columns: Country, Coupon, Price, Yield, Week ago, Month ago. Includes Australia, Austria, Belgium, Canada, Denmark, France, Germany, Ireland, Italy, Japan, Netherlands, Portugal, Spain, Sweden, UK Gilt, US Treasury.

Table with columns: Bond, Price, Yield, Week ago, Month ago. Includes UK Gilts, US Treasury, and various international bonds.

Table with columns: Bond, Price, Yield, Week ago, Month ago. Includes various international bonds and options.

Table with columns: Bond, Price, Yield, Week ago, Month ago. Includes various international bonds and options.

US INTEREST RATES

Table with columns: Rate, Bid, Offer, Change. Includes Prime rate, Fed funds rate, and various Treasury bills.

UK Gilts Prices

Table with columns: Maturity, Bid, Offer, Change. Includes various UK government bonds.

FT-Actuaries Fixed Interest Indices

Table with columns: Index, Value, Change. Includes UK Gilts, US Treasury, and various international indices.

BOND FUTURES AND OPTIONS

Table with columns: Bond, Price, Yield, Week ago, Month ago. Includes various bond futures and options.

FT Fixed Interest Indices

Table with columns: Index, Value, Change. Includes various fixed interest indices.

Gilt Edged Activity Indices

Table with columns: Index, Value, Change. Includes various gilt edged activity indices.

FT/ISMA International Bond Service

Table with columns: Bond, Price, Yield, Week ago, Month ago. Includes various international bonds.

US Treasury Bond Futures (CBT)

Table with columns: Bond, Price, Yield, Week ago, Month ago. Includes various US Treasury bond futures.

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Germany

Table with columns: Bond, Price, Yield, Week ago, Month ago. Includes various German bonds.

Japan

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Spain

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Other Fixed Interest

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Deutsche Mark Straights

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Swiss Franc Straights

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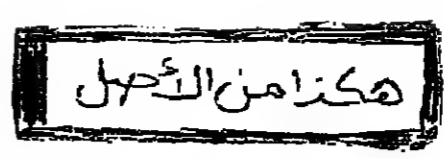
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CURRENCIES AND MONEY

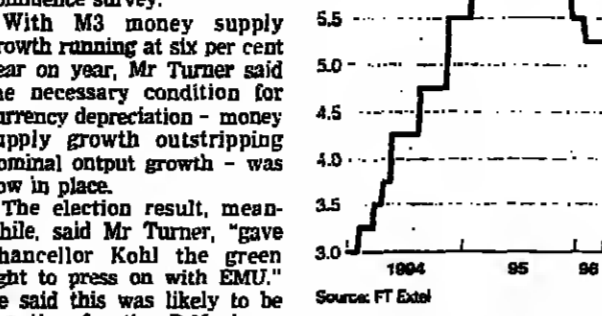
MARKETS REPORT

Currencies quiet as markets wait on Fed meeting

By Philip Gawth

Currency markets had a quiet day yesterday with traders mostly content to stay on the sidelines ahead of the Federal Reserve policy meeting. The dollar closed little changed in London at DM1.4758, while the Fed was still meeting. Against the yen it closed at Y106.245 from Y106.13.

Federal funds



Source: FT Econ

annum average gain in its trade-weighted index. Progress has been so consistent that it is 15 years since the D-Mark index last dropped by as much as 3 per cent below its last average.

But they believe there are three reasons - falling competitiveness, the role of net foreign purchases of bonds, and the issue of "flight capital" - why the D-Mark will weaken.

As evidence of the cumulative loss of competitiveness over a number of years, they note that the pace of net outflows of direct investment from Germany reached almost DM40bn last year, roughly 30 per cent of the size of the trade surplus, while West German employment has not recovered from the 1993 recession.

Mr Bruncker believes Germany is pushing for a single currency because it wants to avoid the sort of revaluation of the D-Mark, common in recent years, which took place regardless of German fundamentals.

WORLD INTEREST RATES

Table of World Interest Rates for March 26, showing rates for various countries like Belgium, France, Germany, etc., with columns for overnight, one month, three months, six months, one year, and Libor rates.

LIBOR FT London

Table of LIBOR FT London rates for various currencies including US Dollar, ECU, and others.

EURO CURRENCY INTEREST RATES

Table of Euro Currency Interest Rates for March 26, showing rates for various European currencies like Belgian Franc, Dutch Guilder, etc.

OTHER CURRENCIES

Table of Other Currencies rates for March 26, including rates for Hong Kong, Singapore, etc.

most currencies. The lira was the main loser, finishing at L1.054 from L1.055. Traders sold the currency after news emerged that shares in the state-controlled Banco di Napoli had been suspended.

The dollar firmed slightly when it emerged that the Fed had left interest rates on hold. The announcement did not come as a surprise. While many observers believe US rates will still fall further, the chance of an early cut was reduced by the fresh US payroll report last month.

On the policy front, the Swedish central bank cut the repo rate to 7.4 per cent from 7.5 per cent, the seventh reduction of its central money market tender rate this year.

With M3 money supply growth running at six per cent year on year, Mr Turner said the necessary condition for currency depreciation - money supply growth outstripping nominal output growth - was now in place.

The election result, meanwhile, said Mr Turner, "gave Chancellor Kohl the green light to press on with EMU." He said this was likely to be negative for the D-Mark on fears of dilution when it becomes part of a single currency. Also, with the EMU project requiring a tight fiscal policy, this would need to be countered by an environment of low interest rates.

The IPO survey revealed a big drop in exporter optimism. To the lowest level since last June, Mr Turner said this was probably a lagged response to

the D-Mark's large appreciation against the yen in the second half of 1995.

The D-Mark has also been the subject of pessimistic comment from Robert Fleming Securities. Peter Warburton and Paul Bruncker note that for 20 years the D-Mark's reputation as a dependable store of wealth "increased in parallel with the 2.9 per cent per

POUND SPOT FORWARD AGAINST THE POUND

Table of Pound Spot Forward Against the Pound for March 26, showing rates for various maturities from 1 month to 1 year.

DOLLAR SPOT FORWARD AGAINST THE DOLLAR

Table of Dollar Spot Forward Against the Dollar for March 26, showing rates for various maturities from 1 month to 1 year.

CROSS RATES AND DERIVATIVES

EXCHANGE CROSS RATES

Table of Exchange Cross Rates for March 26, showing rates for various currencies like Belgium, France, Germany, etc.

YEN EUROPEAN CURRENCY UNIT RATES

Table of Yen European Currency Unit Rates for March 26, showing rates for various European currencies.

UK INTEREST RATES

LONDON MONEY RATES

Table of London Money Rates for March 26, showing rates for various currencies like Interbank, Sterling, etc.

US TREASURY BILL FUTURES (MM) \$1m per 100M

Table of US Treasury Bill Futures for March 26, showing rates for various maturities.

BASE LENDING RATES

Table of Base Lending Rates for March 26, showing rates for various banks and currencies.

US TREASURY BILL FUTURES (MM) \$1m per 100M

Table of US Treasury Bill Futures for March 26, showing rates for various maturities.

UK CLEARING BANKS

Table of UK Clearing Banks for March 26, showing clearing rates for various banks.

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US TREASURY BILL FUTURES (MM) \$1m per 100M

Table of US Treasury Bill Futures for March 26, showing rates for various maturities.

THREE MONTH EURO CURRENCY FUTURES (LIFE) DM1m points of 100%

Table of Three Month Euro Currency Futures for March 26, showing rates for various currencies.

THREE MONTH EURO CURRENCY FUTURES (LIFE) DM1m points of 100%

Table of Three Month Euro Currency Futures for March 26, showing rates for various currencies.

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THREE MONTH EURO CURRENCY FUTURES (LIFE) DM1m points of 100%

Table of Three Month Euro Currency Futures for March 26, showing rates for various currencies.

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The announcement appears as a major record only.



A joint venture consisting of Skanska AB, Hejgaard & Schultz a/s, Hochtief AG, Monberg & Thorsen A/S

DKK 1,574,542,000

A GUARANTEE FACILITY

Advance Payment and Performance Guarantees issued in favour of Orsundskorsort in relation to Contract No 3

BRIDGES - In the Orsundskorsort, the design, engineering and construction of a high bridge and two approach bridges.

Arranged by a Co-suretyship consisting of Dansk Kreditforsikrings- og Aktieselskab and Hermes Kreditforsikring AB

Nov 1995

NATIONAL BANK OF CANADA

US\$ 150,000,000 Floating Rate Subordinated Capital Debentures due 2007

In accordance with the Terms and Conditions of the above-mentioned Debentures, notice is hereby given that the Board of Directors of the National Bank of Canada (the "Bank") has increased on March 12, 1996 the quarterly regular dividend on each Common Share of the Bank for the quarter ending April 30, 1996 and payable on May 1, 1996 from Cdn\$ 0.115 to Cdn\$ 0.125.

Consequently, pursuant to clause 10 Adjustment of Rate of Interest of paragraph Interest of the Terms and Conditions of the Debentures, the Rate of Interest has been adjusted in accordance with the following formula:

Adjusted Rate of Interest = Regular dividend declared + Rate of Interest Reference dividend

Where "Reference Dividend" is equal to Cdn\$ 0.20

Consequently, the Rate of Interest as adjusted pursuant to the above will be: 0.625 % Rate of Interest

The Rate of Interest shall continue to be adjusted according to the above formula until the Interest Period next following that in which the last dividend declared by the Bank on the Common Shares is equal to or greater than the Reference Dividend.

Kredietbank S.A. Luxembourg in its capacity as Reference Agent for the Debentures will adjust the Rate of Interest for the subsequent Interest Periods, the first one starting on August 30, 1996.

Brokerage service that's second to none - at discounted prices

Fast fills. Access to worldwide markets. 24 hour, call-free service. Institutional rates for currency conversions.

Full range of trading support-free deposits \$500 million in customer

0800-262-472

LTD-WALDOCK & COMPANY

TO SAVE THE RAINFOREST WE PROVIDE TREES TO CHOP DOWN.

By helping people to reforest to plant trees, WWF is working to solve some of the problems that cause deforestation.

Where trees are chopped down for firewood, we help plant fast growing saplings as a renewable source of fuel. This is particularly valuable in the Impenetrable Forest.

Uplands, where indigenous hardwoods take up to two hundred years to mature.

The Marhamba forest near WWF gave to the local villagers are ready for harvesting in only five years.

Where trees are chopped down for use in construction, as in Pakwan, we supply fast growing local pine species.

The idea behind all our work is that rainforests used wisely can be used forever.

Write to the Membership Officer at the address below.

World Wide Fund For Nature

WWF logo and contact information.

WWF logo and contact information.

WWF logo and contact information.



LONDON SHARE SERVICE

ALCOHOLIC BEVERAGES

Table listing companies in the Alcoholic Beverages sector with columns for company name, share price, and change.

BANKS, MERCHANT

Table listing companies in the Banks, Merchant sector with columns for company name, share price, and change.

BANKS, RETAIL

Table listing companies in the Banks, Retail sector with columns for company name, share price, and change.

BREWERIES, PUBS & REST

Table listing companies in the Breweries, Pubs & Rest sector with columns for company name, share price, and change.

BUILDING & CONSTRUCTION

Table listing companies in the Building & Construction sector with columns for company name, share price, and change.

BUILDING MATS. & MERCHANTS

Table listing companies in the Building Mats. & Merchants sector with columns for company name, share price, and change.

CHEMICALS

Table listing companies in the Chemicals sector with columns for company name, share price, and change.

DISTRIBUTORS

Table listing companies in the Distributors sector with columns for company name, share price, and change.

DIVERSIFIED INDUSTRIALS

Table listing companies in the Diversified Industrials sector with columns for company name, share price, and change.

ELECTRICITY

Table listing companies in the Electricity sector with columns for company name, share price, and change.

ELECTRONIC & ELECTRICAL EQPT

Table listing companies in the Electronic & Electrical Eqpt sector with columns for company name, share price, and change.

ENGINEERING, VEHICLES

Table listing companies in the Engineering, Vehicles sector with columns for company name, share price, and change.

EXTRACTIVE INDUSTRIES

Table listing companies in the Extractive Industries sector with columns for company name, share price, and change.

ELECTRONIC & ELECTRICAL EQPT - Cont.

Continuation of Electronic & Electrical Eqpt sector table.

ENGINEERING

Table listing companies in the Engineering sector with columns for company name, share price, and change.

ENGINEERING - Cont.

Continuation of Engineering sector table.

EXTRACTIVE INDUSTRIES - Cont.

Continuation of Extractive Industries sector table.

FOOD PRODUCERS

Table listing companies in the Food Producers sector with columns for company name, share price, and change.

GAS DISTRIBUTION

Table listing companies in the Gas Distribution sector with columns for company name, share price, and change.

HEALTH CARE

Table listing companies in the Health Care sector with columns for company name, share price, and change.

EXTRACTIVE INDUSTRIES - Cont.

Continuation of Extractive Industries sector table.

HOUSEHOLD GOODS

Table listing companies in the Household Goods sector with columns for company name, share price, and change.

INSURANCE

Table listing companies in the Insurance sector with columns for company name, share price, and change.

INVESTMENT TRUSTS

Table listing companies in the Investment Trusts sector with columns for company name, share price, and change.

INVESTMENT TRUSTS - Cont.

Continuation of Investment Trusts sector table.

INVESTMENT TRUSTS

Table listing companies in the Investment Trusts sector with columns for company name, share price, and change.

INVESTMENT TRUSTS - Cont.

Continuation of Investment Trusts sector table.

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INVESTMENT TRUSTS - Cont.

Continuation of Investment Trusts sector table.

INVESTMENT TRUSTS

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HEALTH CARE - Cont.

Continuation of Health Care sector table.

HOUSEHOLD GOODS

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INSURANCE

Table listing companies in the Insurance sector with columns for company name, share price, and change.

INVESTMENT TRUSTS

Table listing companies in the Investment Trusts sector with columns for company name, share price, and change.

INVESTMENT TRUSTS - Cont.

Continuation of Investment Trusts sector table.

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Advertisement for digital PC by Computacenter, featuring the text 'From the UK's leading provider of distributed IT systems and services.' and the Computacenter logo.







FT MANAGED FUNDS SERVICE

FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (+44 171) 873 4378 for more details.

OFFSHORE AND OVERSEAS

BERMUDA (SIB RECOGNISED)

Table listing Bermuda (SIB Recognised) funds including Fidelity Currency Funds Ltd, Fidelity International Growth Fund, and others.

BERMUDA (REGULATED)\*\*

Table listing Bermuda (Regulated) funds including Bermuda Int'l Growth Fund, Bermuda Int'l Income Fund, and others.

GUERNSEY (SIB RECOGNISED)

Table listing Guernsey (SIB Recognised) funds including AIB Investment Managers (Guernsey) Ltd, AIB International Growth Fund, and others.

IRELAND (SIB RECOGNISED)

Table listing Ireland (SIB Recognised) funds including AIB Fund Management Ltd, AIB International Growth Fund, and others.

IRELAND (REGULATED)\*\*

Table listing Ireland (Regulated) funds including AIB Fund Management Ltd, AIB International Growth Fund, and others.

ROYAL BANK OF CANADA (SIB RECOGNISED)

Table listing Royal Bank of Canada (SIB Recognised) funds including Royal Bank of Canada O/S Fd Mgrs Ltd, Royal Bank of Canada O/S Fd Mgrs Ltd - Contd.

GUERNSEY (REGULATED)\*\*

Table listing Guernsey (Regulated) funds including ANZ Invest Co (Guernsey) Ltd, ANZ Invest Co (Guernsey) Ltd - Contd.

IRELAND (SIB RECOGNISED)

Table listing Ireland (SIB Recognised) funds including AIB Fund Management Ltd, AIB International Growth Fund, and others.

IRELAND (REGULATED)\*\*

Table listing Ireland (Regulated) funds including AIB Fund Management Ltd, AIB International Growth Fund, and others.

EUROPEAN FLIGHT SELECT FUNDS PLC

Table listing European Flight Select Funds PLC funds including European Flight Select Funds PLC, European Flight Select Funds PLC - Contd.

ISLE OF MAN (REGULATED)\*\*

Table listing Isle of Man (Regulated) funds including AXA Equity & Law Int'l Fund Mgrs, AXA Equity & Law Int'l Fund Mgrs - Contd.

ISLE OF MAN (SIB RECOGNISED)

Table listing Isle of Man (SIB Recognised) funds including AXA Equity & Law Int'l Fund Mgrs, AXA Equity & Law Int'l Fund Mgrs - Contd.

ISLE OF MAN (SIB RECOGNISED)

Table listing Isle of Man (SIB Recognised) funds including AXA Equity & Law Int'l Fund Mgrs, AXA Equity & Law Int'l Fund Mgrs - Contd.

CHEMICAL INVESTMENT FUND ADMINISTRATORS LTD

Table listing Chemical Investment Fund Administrators Ltd funds including Chemical Investment Fund Administrators Ltd, Chemical Investment Fund Administrators Ltd - Contd.

ISLE OF MAN (REGULATED)\*\*

Table listing Isle of Man (Regulated) funds including AXA Equity & Law Int'l Fund Mgrs, AXA Equity & Law Int'l Fund Mgrs - Contd.

ISLE OF MAN (SIB RECOGNISED)

Table listing Isle of Man (SIB Recognised) funds including AXA Equity & Law Int'l Fund Mgrs, AXA Equity & Law Int'l Fund Mgrs - Contd.

ISLE OF MAN (SIB RECOGNISED)

Table listing Isle of Man (SIB Recognised) funds including AXA Equity & Law Int'l Fund Mgrs, AXA Equity & Law Int'l Fund Mgrs - Contd.

ASHBURNER GLOBAL FUNDS LTD (1200)

Table listing Ashburner Global Funds Ltd (1200) funds including Ashburner Global Funds Ltd (1200), Ashburner Global Funds Ltd (1200) - Contd.

ISLE OF MAN (REGULATED)\*\*

Table listing Isle of Man (Regulated) funds including AXA Equity & Law Int'l Fund Mgrs, AXA Equity & Law Int'l Fund Mgrs - Contd.

ISLE OF MAN (SIB RECOGNISED)

Table listing Isle of Man (SIB Recognised) funds including AXA Equity & Law Int'l Fund Mgrs, AXA Equity & Law Int'l Fund Mgrs - Contd.

ISLE OF MAN (SIB RECOGNISED)

Table listing Isle of Man (SIB Recognised) funds including AXA Equity & Law Int'l Fund Mgrs, AXA Equity & Law Int'l Fund Mgrs - Contd.

JOHN GOWAT MANAGEMENT - CONTD.

Table listing John Gwat Management - Contd. funds including John Gwat Management - Contd., John Gwat Management - Contd. - Contd.

ISLE OF MAN (REGULATED)\*\*

Table listing Isle of Man (Regulated) funds including AXA Equity & Law Int'l Fund Mgrs, AXA Equity & Law Int'l Fund Mgrs - Contd.

ISLE OF MAN (SIB RECOGNISED)

Table listing Isle of Man (SIB Recognised) funds including AXA Equity & Law Int'l Fund Mgrs, AXA Equity & Law Int'l Fund Mgrs - Contd.

ISLE OF MAN (SIB RECOGNISED)

Table listing Isle of Man (SIB Recognised) funds including AXA Equity & Law Int'l Fund Mgrs, AXA Equity & Law Int'l Fund Mgrs - Contd.

JOHN GOWAT MANAGEMENT - CONTD.

Table listing John Gwat Management - Contd. funds including John Gwat Management - Contd., John Gwat Management - Contd. - Contd.

ISLE OF MAN (REGULATED)\*\*

Table listing Isle of Man (Regulated) funds including AXA Equity & Law Int'l Fund Mgrs, AXA Equity & Law Int'l Fund Mgrs - Contd.

ISLE OF MAN (SIB RECOGNISED)

Table listing Isle of Man (SIB Recognised) funds including AXA Equity & Law Int'l Fund Mgrs, AXA Equity & Law Int'l Fund Mgrs - Contd.

ISLE OF MAN (SIB RECOGNISED)

Table listing Isle of Man (SIB Recognised) funds including AXA Equity & Law Int'l Fund Mgrs, AXA Equity & Law Int'l Fund Mgrs - Contd.

BERKSHIRE ASSET MANAGEMENT

Table listing Berkshire Asset Management funds including Berkshire Asset Management, Berkshire Asset Management - Contd.

ISLE OF MAN (REGULATED)\*\*

Table listing Isle of Man (Regulated) funds including AXA Equity & Law Int'l Fund Mgrs, AXA Equity & Law Int'l Fund Mgrs - Contd.

ISLE OF MAN (SIB RECOGNISED)

Table listing Isle of Man (SIB Recognised) funds including AXA Equity & Law Int'l Fund Mgrs, AXA Equity & Law Int'l Fund Mgrs - Contd.

ISLE OF MAN (SIB RECOGNISED)

Table listing Isle of Man (SIB Recognised) funds including AXA Equity & Law Int'l Fund Mgrs, AXA Equity & Law Int'l Fund Mgrs - Contd.

OFFSHORE INSURANCE

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LONDON STOCK EXCHANGE

MARKET REPORT

Political pressures weigh heavily on equities

By Steve Thompson, UK Stock Market Editor

The political fall-out from the mad cow disease controversy continued to cast a shadow over UK equities and was said to have been responsible for another dismal performance by the stock market.

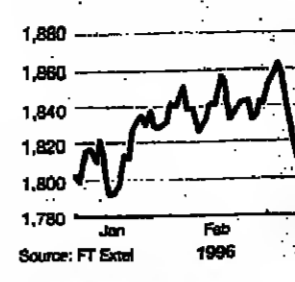
Wall Street gave precious little support to London, with the Dow Jones Industrial Average coming in on the weak side and falling sharply in the first 30 minutes of trading before staging a good rally and posting a small gain soon after that.

On the plus side, however, the view in the market was that the FT-SE 100 index was being depressed by a large short position in the future which, if unwound, might produce a sharp rebound.

It was not all doom and gloom in the market. Glaxo Wellcome shot to the top of the FT-SE 100 leader board, in the wake of a burst of speculative buying triggered by the emergence of rumours that a merger between the company and Pfizer, of the US, could be on the cards.

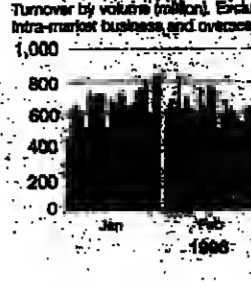
Analysts suggested the rise in Greenalls was nothing but a technical bounce. The shares rose 14p to 581p. The stock reached an all-time peak of 608.5p in late January.

FT-SE-A All-Share Index



Source: FT-SE

Equity shares traded



Source: FT-SE

Indices and ratios

Table with 2 columns: Index Name and Value. Includes FT-SE 100 (3660.9), FT-SE Mid 250 (4294.5), FT-SE-A 350 (1845.5), FT-SE-A All-Share (1826.17), and FT-SE-A All-Share yield (3.85).

Best performing sectors

Table with 2 columns: Sector and Change. Top performers include Oil Integrated (+1.5), Mineral Extraction (+1.1), and Pharmaceuticals (+0.9).

Worst performing sectors

Table with 2 columns: Sector and Change. Worst performers include Banks: Retail (-2.0), Electronic & Elect (-1.8), and Chemicals (-1.6).

Glaxo merger hints

Glaxo Wellcome, which has been left out of the rumour club for some time, burst back into prominence yesterday. A story went round the market that it was about to link up with Pfizer, of the US.

As Glaxo is currently the world's biggest pharmaceuticals company by sales and is still accruing the benefits of its takeover of Wellcome, there seems little rationale for another big consolidation.

On the other hand, argued some analysts, one version of Zantac - Glaxo's biggest selling drug - will lose its patent in the US next year and Sir Richard Sykes, the CEO, has pushed up by a swathe of broker buy notes and hopes for an early inclusion in the senior FTSE index.

Securix "A" traded 3.2m, the heaviest single day volume since late 1991. The shares put on 120 to 117p, up 19 per cent in two days.

Profit-taking ahead of today's start to conditional dealings in mobile phones rival Orange left Vodafone 2 lighter at 248p.

Royal Bank of Scotland fell sharply for the second day running as Credit Lyonnais Laing, one of the bank's brokers, cut its forecasts for current year profits.

The feel-bad factor did not help the rest of the composite insurers, with General Accident slipping 9% to 62 1/2% and Royal Insurance 6 to 949p.

Hilldown followed the market lower to close 4 off at 189p, in trade of 2.1m. A further retreat was prevented by a recommendation from BZW, which yesterday issued a covered warrant on the stock.

Sims Food Group, which fell heavily last week, found support. Dealers continued to believe the government will soon be forced to announce a large-scale cull of cattle - Sims has several abattoirs. The shares put on a penny at 20p.

Construction group Taylor Woodrow shot ahead following forecast-trouncing results and a 33 per cent increase for the dividend. BZW, which had been at the bottom of the estimate range, upgraded by 10m to 560m for the current year.

The shares surged almost 8 per cent, gaining 11p to 149p. Strong and improving net cash balances sparked talk of another share buyback by the group.

German exposed building stocks had a bad day. Pilkington came off 2 1/2 to 206 1/2p and RMC shed 6 to 988p. But the nervousness mostly bunched around Redland, which puts out results tomorrow. The shares closed off 8 at 386p.

Asda Group remained a good trade and saw volume of 1m. The shares hardened 1/4 to 103p as bid talk continued to circulate around the stock.

Poor first-quarter numbers from Dutch giant Philips combined with a profits warning from Filtronix Comtek to cast a long shadow over a number of high-tech electronics stocks.

Filtronic tumbled 20 to 353p, Telpesc 22 to 67p and Psion 20 to 955p. Sector leader GEC, strong of late on the back of planned management changes, was the second worst performing Footsie stock, off 1 1/2 to 337 1/2p. Zeneca lost 10 to 1341p, although some analysts are hoping for good news late tomorrow.

FUTURES AND OPTIONS

Table with 2 columns: Instrument and Price. Includes FT-SE 100 INDEX FUTURES (LFFE) and FT-SE MID 250 INDEX FUTURES (LFFE).

Table with 2 columns: Instrument and Price. Includes FT-SE 100 INDEX OPTION (LFFE) and EURO STYLE FT-SE 100 INDEX OPTION (LFFE).

MARKET REPORTERS

Peter John, Joel Kibazo, Jeffrey Brown, Lisa Wood.

LONDON RECENT ISSUES: EQUITIES

Table with 4 columns: Issue Name, Price, Change, and Volume. Lists recent equity issues like 195 FFP, 196 FFP, etc.

FT GOLD MINES INDEX

Table with 2 columns: Index Name and Value. Includes Gold Mines Index (35) and Regional indices.

FT-SE Actuaries Share Indices

Table with 2 columns: Index Name and Value. Includes FT-SE 100, FT-SE Mid 250, etc.

The UK Series

Table with 2 columns: Index Name and Value. Includes FT-SE 100, FT-SE Mid 250, etc.

Hourly movements

Table with 2 columns: Index Name and Value. Shows hourly price movements for FT-SE 100, etc.

FT-SE Actuaries 350 Industry baskets

Table with 2 columns: Basket Name and Value. Lists industry baskets like Bldg & Constrn, Pharmceutics, etc.

Hourly movements

Table with 2 columns: Basket Name and Value. Shows hourly price movements for industry baskets.

Hourly movements

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Hourly movements

Table with 2 columns: Basket Name and Value. Shows hourly price movements for industry baskets.

TRADING VOLUME

Major Stocks Yesterday

Table with 4 columns: Stock Name, Price, Change, and Volume. Lists major stocks like AstraZeneca, Glaxo Wellcome, etc.

FINANCIAL TIMES EQUITY INDICES

Table with 2 columns: Index Name and Value. Includes Ordinary Shares, Div. yield, P/E ratio, etc.

London market data

Table with 2 columns: Metric and Value. Includes Total Flows, Total Fails, etc.

U.S. \$150,000,000 Financiere CSFB N.V. Junior Guaranteed Undated Floating Rate Notes

Guaranteed on a subordinated basis as to payment of principal and interest by Financiere Credit Suisse-First Boston.

U.S. \$30,000,000 CRÉDIT D'ÉQUIPEMENT DES PETITES ET MOYENNES ENTREPRISES

Undated Subordinated Floating Rate Notes. For the interest period from March 27, 1996 to September 27, 1996 the rate has been determined at 6.71875% per annum.

MINORCO NOTICE TO HOLDERS OF BEARER SHARE CERTIFICATES PAYMENT OF COUPON No. 17

With reference to the notice of final dividend advertised in the press on March 15, 1996 the following information is published for the guidance of holders of bearer share certificates.

The dividend of 42 cents was declared in United States currency. The dividend will be paid on or after May 10, 1996, against surrender of Coupon No.17 detached from bearer share certificates as follows:

At all the offices of the Corporation's Continental paying agents: Banque Générale du Luxembourg, Crédit du Nord, etc.

Copies of the Annual Report of Minorco for the year to December 31, 1995 will be available from the Registered Office of the Corporation and the offices of the paying agents referred to above on or about April 4, 1996.

FIDELITY DISCOVERY FUND

Société d'Investissement à Capital Variable. Registered office: Kansallis House - Place de l'Étoile, L-1021 Luxembourg, R.C. No B 22250.

NOTICE OF EXTRAORDINARY GENERAL MEETING

Notice is hereby given that an Extraordinary General Meeting of Shareholders of Fidelity Discovery Fund (the "Fund") will be held at the registered office of the Fund in Luxembourg on Thursday April 4, 1996 at 2.00 pm to consider the following agenda:

1. To hear the report of the liquidator. 2. To appoint an auditor to the liquidation. Since the net assets of the Fund have decreased below two thirds of the equivalent of 50,000,000 Luxembourg francs, no quorum is required for the meeting and the resolutions will be passed with the consent of a simple majority of the shares represented at the meeting.

Subject to the limitations imposed by the Articles of Incorporation of the Fund with regard to ownership of shares which constitute in the aggregate more than three percent (3%) of the outstanding shares, each share is entitled to one vote. A shareholder may act in any meeting by proxy.

CSFB logo and contact information for Financiere Credit Suisse-First Boston.

CSFB logo and contact information for Crédit d'Équipement.

CSFB logo and contact information for Crédit d'Équipement.

CSFB logo and contact information for Crédit d'Équipement.

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CSFB logo and contact information for Crédit d'Équipement.

CSFB logo and contact information for Crédit d'Équipement.

THE TOP OPPORTUNITIES SECTION

For senior management positions. For information please contact: Robert Hunt +44 0171 873 4095

CITIBANK logo and contact information.

CITIBANK logo and contact information.

CITIBANK logo and contact information.

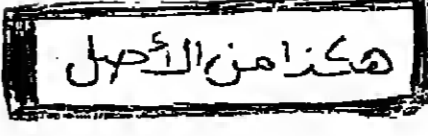
CITIBANK logo and contact information.

CITIBANK logo and contact information.

CITIBANK logo and contact information.

CITIBANK logo and contact information.





WORLD STOCK MARKETS

Main table of world stock markets including Europe, Asia, Africa, and Americas. Columns include country, stock name, price, and change.

Advertisement for Rockwell: 'From automotive to automation, Rockwell gets your business moving. Rockwell' with logo.

Table of indices and futures markets, including US Indices, Index Futures, and Tokyo - Most Active Stocks.



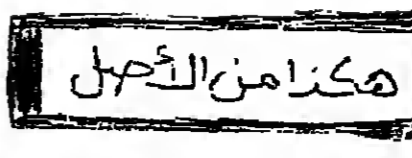
NEW YORK STOCK EXCHANGE COMPOSITE PRICES

Main table containing stock prices, organized into columns for various sectors and individual stocks. Includes sub-sections like 'NEW YORK STOCK EXCHANGE', 'NASDAQ', and 'AMERICAN STOCK EXCHANGE'.

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NASDAQ NATIONAL MARKET

Table of NYSE Composite Prices with columns for Stock, High, Low, Close, and Change. Includes sub-sections for 'Continued from previous page', 'A-Z', and 'X-Y-Z'.

Table of NASDAQ National Market prices with columns for Stock, High, Low, Close, and Change. Includes sub-sections for 'A-Z', 'X-Y-Z', and 'A-Z'.

AMEX COMPOSITE PRICES

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AMERICA Little reaction to 'no change' rate decision

Wall Street

US shares spent the morning session in a narrow trading range near Monday's closing levels as the Federal Reserve concluded its Open Market Committee meeting without a change in interest rates...

Sum Microsystems

Sum Microsystems retreated more than \$3 in early trading on news that researchers at Princeton University had discovered a security flaw in the company's internet programming language, Java...

Canada

Toronto offset strength in golds with weakness elsewhere and the TSE 300 composite index was up just 1.23 at 4,968.50 at noon...

Mexico rises 1.6%

Hopes for a fall in interest rates led MEXICO CITY higher by midsession, while strength in the peso was another contributory factor. The IPC index was up 49.02 or 1.6 per cent at 3,117.02, a new intra-day high...

South African golds stronger

Gold shares were stronger following a rise in the price of bullion to around the \$400 level. Industrials, mixed throughout much of the session, weakened sharply towards the close...

EUROPE Good results, acquisition turn spotlight on Océ

Océ-van der Grinten

Océ-van der Grinten caught the imagination in AMSTERDAM following a good set of first-quarter results and an announcement from the photocopier group that it was acquiring Siemens Nixdorf's printing systems division...

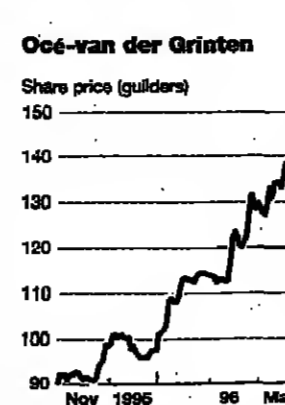
ASIA PACIFIC

Tokyo

The Nikkei average closed above 21,000 for the first time in seven weeks. Trading began for the new year account, and this coincided with technical buying as parliamentary talks about the jusen bailout resumed...

Roundup

Derivatives were no help in HONG KONG, where equities reversed early gains on selling mostly related to technical activity in the futures market...



Source: FT Data

FT-SE Actuaries Share Indices

Table with columns for Mar 26, Mar 25, Mar 22, Mar 21, Mar 20, Mar 19. Rows include FT-SE Actuaries 100, FT-SE Actuaries 200, and FT-SE Actuaries 300.

THE EUROPEAN SERIES

Table with columns for Mar 26, Mar 25, Mar 22, Mar 21, Mar 20, Mar 19. Rows include FT-SE Europe 100, FT-SE Europe 200, and FT-SE Europe 300.

Swissair slipped

Swissair slipped SFR40 to SFR1,935 on profit-taking, and as it disclosed a lower overall load factor for February...

Vienna saw contrasting stories

VIENNA saw contrasting stories in OMV, Lenzing and Mayr-Melnhof as the ATX index kept its balance, up 0.12 at 1,068.49 following a session's high of 1,073.06...

ASIA PACIFIC Futures boost Nikkei over 21,000, hinder Hang Seng

Roundup

Derivatives were no help in HONG KONG, where equities reversed early gains on selling mostly related to technical activity in the futures market...

Share trading activity

Share trading activity was concentrated on major blue chips, such as Henderson, which slipped HK\$1.50 after rising to HK\$54.75...

Profit-taking was evident

Profit-taking was evident during most of the session after the market's recent string of gains. The government fund was so far bought more than

News that Wing Tai

News that Wing Tai, a leading local developer, had sold most of its latest condominium project at record prices lifted Orchard Parade, which has interests in nearby sites...

KUALA LUMPUR registered

KUALA LUMPUR registered a new 1996 closing peak on late buying of selected blue chips, the KLCSE composite index ending 3.66 higher at 1,164.49...

BANGKOK retreated

BANGKOK retreated slightly, with many investors holding back ahead of the publication tomorrow of economic data. The SET index lost 6.42 to 1,291.65 in turnover of 24,980...

FT/S&P ACTUARIES WORLD INDICES

The FT/S&P Actuaries World Indices are compiled by FT-SE International Limited, Goldman, Sachs & Co. and Standard & Poor's. The indices are compiled by FT-SE International and Goldman Sachs in conjunction with the Faculty of Actuaries and the Institute of Actuaries, NewWest Securities Ltd and a number of other institutions.

Large table with columns for REGIONAL MARKETS, DOLLAR INDEX, and various stock indices. Includes rows for Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Hong Kong, Iceland, Italy, Japan, Korea, Malaysia, Mexico, Netherlands, New Zealand, Norway, Singapore, South Africa, Spain, Sweden, Switzerland, Thailand, United Kingdom, and USA.

JAWA POWER advertisement for P.T. Jawa Power - Paiton Private Power Project Phase II. Includes details on project finance facilities, guaranteed by HERMES Kreditversicherungs-AG, and JPMorgan logo.



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Océ

FINANCIAL TIMES SURVEY

INSURANCE

Uncertainty and risk move closer to home

The burden falling on insurers from pollution, industrial health risks and court awards continues to stretch underwriting skills, writes Ralph Atkins

For the world's insurance companies, uncertainty and risk - on which they are supposed to feast - are moving closer to home. Changing patterns of demand for insurance products, technology and stiff competitive pressures are requiring bold responses by insurers themselves.

Globalisation, cost-cutting, consolidation and specialisation have become the watchwords of the general - or non-life - industry across western Europe and the US.

At the same time, the risks against which insurers are offering protection remain as unpredictable as ever. Munich Re, the world's largest reinsurer, last week calculated that insured losses from large natural catastrophes had increased by a factor of 15 since the 1960s.

World Trade Organisation deal on financial services - signed by the European Union and 28 other countries - could offer expansion opportunities but is also putting a greater emphasis on prices. In Japan, insurance law reforms effective from April 1, together with continuing pressure from the US for liberalisation of the Japanese life and non-life sectors, mean that strict price controls in the world's second-largest insurance market might eventually be relaxed.

Worse, from the insurance companies' perspective, many commercial buyers are buying less. Dedicated or 'captive' insurance companies, owned by large corporations, are taking business from conventional insurance carriers. Risk management is maturing as a professional skill deployed by commercial companies to reduce their insurance bills.

Technology is also speeding transactions, allowing the best-equipped insurers to offer dramatic improvements in service. In commercial insurance, the six largest insurance brokers are attempting to bring about a technological 'big bang' by setting up a 'World Insurance Network' that could result in cost savings of up to 20 per cent and allow insurers to transact business worldwide from computer screens in their offices.

Although there are no easy responses to such challenges, some common themes have emerged in the past year. First, there has been a recognition that the industry's past problems need to be addressed if an insurer is to compete effectively in the future. Several US



In Europe by acquiring operations from Swiss Re. France's AXA is extending its activities in east Asia, using as a base the operations of Australian life insurer National Mutual taken over last summer in a \$4.1bn deal. And Switzerland's Zurich Insurance last year bid \$2bn for Kemper, the US life assurance and fund management company, to add to a US stable which also includes much of the insurance business underwritten by Home Holdings, troubled US associate of Swedish insurer Trygg-Hansa.

Sheer size is not the only factor insurers have to bear in mind, however. 'The strategy of the bigger players,' says Mr Alistair Johnston, of management consultancy and accountancy firm KPMG, 'is to get critical mass and information technology functions. The problem is that some are encumbered by inherited IT systems, their sheer size and management structure... In terms of fleet of foot, clearly there is an issue there.'

IN THIS SURVEY

- The UK market: The golden glow is giving way to harsher times
London market: A time for tough decisions
Life industry: Cheer despite the gloom
Employers' liability: The growth in occupational disease claims has been a worrying trend
Technology: Legacy systems show their age
Risk management: An expanding role
Continental Europe: The outlook is far from positive
The single market: A distant and elusive prospect
The French distribution system: Structural reforms continue
European health care: Private sector's role grows
Japan: Significant opportunities are possible
Pollution: The buyer's perspective
Production Editor: Philip Sanders

Seng

Small and medium companies faced better re-capitalisation as stocks as they rose... KOK merged with many assets...

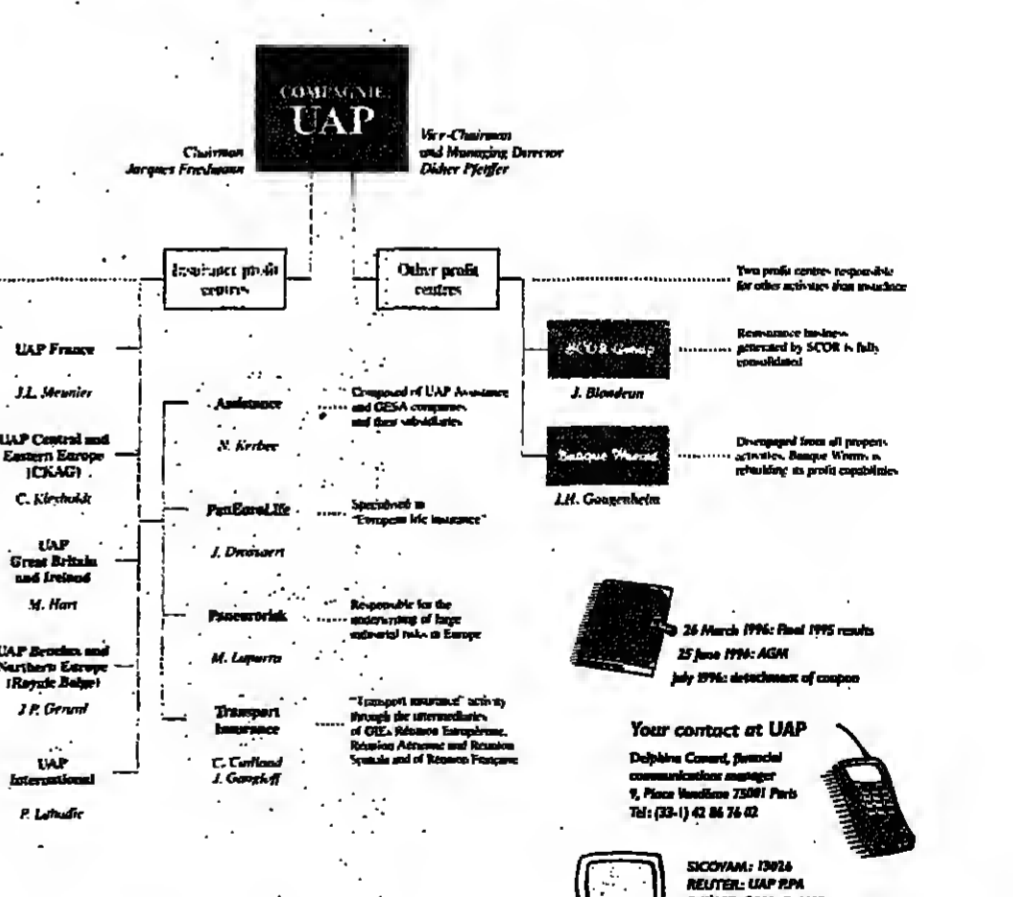
With a network that is solid and unified, UAP can assert its position as the leading French insurance group and the second largest in Europe and, more than ever, focus its strategy on improving profitability.

Facts about UAP Group, the reference European insurer

Infographic showing UAP's market position: Premier French insurance group, #2 in Europe, 10% of the French market, 644 billion of assets under management, Over 60,000 employees, Over 60% of premium income generated outside France.

Key events and breakdown of consolidated premium income for 1995. Key events include UAP's 50% stake in Sun Life, UAP's 50% stake in Sun Life, UAP's 50% stake in Sun Life. Breakdown of consolidated premium income for 1995 (FF billions): UAP France 61.3, UAP Central and Eastern Europe 11.1, UAP Iberian and Northern Europe 17.8, UAP East Britain and Ireland 15.7, UAP International 12.4, UAP Retail 18.9, UAP Other 12.4. Total: FF 157 billion.

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II INSURANCE

The UK market: by Ralph Atkins

# Shadow over golden glow

### Upheaval in Britain's general insurance sector has emerged in many ways

It was, in the words of Mr John Carter, chief executive of Commercial Union "a golden scenario". A year ago, UK-based general insurance companies were enjoying the benefits of higher premium rates and lower claims thanks to good weather and declining crime figures.

He might have added that insurers' investment income was also bubbling, thanks to favourable conditions in financial markets.

Now, the golden glow is giving way to harsher times. Competition is driving premium rates lower and claims are rising. The fear of many in the industry is that history is about to repeat itself: that UK insurers are facing a steep decline in profitability and further disappointing rewards for shareholders.

Upheaval for the UK general insurance sector has emerged in many ways. It could presage similar turmoil in other European countries as deregulation injects the same competitive pressures that have been long-standing in the UK.

First, direct selling by telephone - as pioneered by Royal Bank of Scotland's Direct Line - has matured. Not only have such companies reduced the cost of insurance by cutting out brokers and their commissions, they have also used computer technology to assess risks individually, allowing premium rates to be pitched precisely and the lower-risk customers offered the best deals.

The dynamics of personal motor and household insurance have changed significantly. Size is more important: the larger insurers can spend more on building brands, essential when dealing direct with customers. Expenses have to be pared.

Second has been the widespread rate cutting following the exceptional profitability of the past few years. Household rates have fallen by as much as 15 per cent over the year. Even Direct Line expects to



Competition is driving premiums lower and claims are rising. Picture: PA

have an operating ratio - claims plus expenses as a proportion of premium income - close to 100 this year. That will leave it relying largely on investment income to make a profit. And if Direct Line is facing such pressure, others will be heading for significant losses.

Mr Michael Bright, chief executive of Independent Insurance, observes: "Reinsurance premiums [protection against big losses] continue to reduce, thereby fuelling insurers' determination to retain market share; and this despite increased losses resulting from subsidence, due to the dry summer and the December freeze. This irresponsible behaviour by some insurers will generate a further downward trend in rates over coming months."

Third has been the entrance of new rivals. Building societies and banks are moving into insurance sales and, while facing similar pressure on costs, are poised to begin taking over the traditional insurers role as

underwriters as well as service providers.

Fourth, as a result of the competitive pressures, the premium income of the large composites - selling general as well as life products - is under downward pressure. Solvency ratios - assets as a proportion of policy premiums - are rising. That is providing an incentive to seek acquisitions or other ways of expanding business in order to deliver returns to shareholders.

Mr Allstar Johnston, partner in charge of the UK insurance practice at KPMG, says insurers may be better placed to respond to such changes than in the past. There has been an influx of new managers from outside the insurance industry. Competition, he adds, also "concentrates minds wonderfully" and increased attention is being paid to strategy.

There is, too, a consensus that underwriters are becoming more disciplined. The losses incurred by the industry in the early 1990s still haunt memories. Attempts are being

made to increase private motor rates, for example. Meanwhile, many insurers are looking to overseas operations to compensate for declining UK profits.

But the response to upheaval in the sector by its main participants has varied. Some, such as Commercial Union, have focused on developing international operations. And have almost boasted at the way in which they have lost potentially unprofitable home market business. CU bought French insurer Groupe Victoire for £1.45bn in 1994 and now about a third of its premium income comes from France.

Others have looked for other sources of UK income to stabilise volatile general insurance earnings. General Accident, the Scottish-based composite, last September announced the £170m acquisition of Provident Mutual, the life insurer. It is also looking for continental European expansion, however.

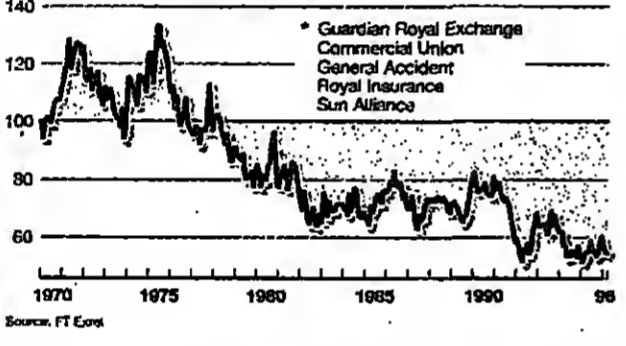
Some - such as Royal and its much smaller rival, Independent Insurance - have decided to tackle head-on the deteriorating UK conditions. Royal has recently won contracts to underwrite household business for Halifax Building Society, (which could increase to £300m the premium income it earns from Halifax) and the Motability account for disabled motorists worth £100m. Past-growing Independent is relying on its carefully-controlled broker links and attention to underwriting standards.

What has been missing, so far, have been large-scale mergers or takeovers designed to exploit economies-of-scale. But there could be significant potential in merging information technology systems. Combined balance sheets should boost investment income.

Part of the explanation for the lack of action is the poor UK outlook, which is encouraging managers to look elsewhere to spend surplus money. Takeovers could also prove expensive compared with the alternative of making a dash for growth by cutting premium rates and spending heavily on marketing. But as conditions in the UK deteriorate, seeking economies of scale through merger or takeovers might become more attractive.

#### UK: top five insurers

Insurers relative to AM share (Jan 1, 1970=100)



Source: FT Com

London insurance market: by Ralph Atkins

# A time for tough decisions

### The switch to electronic trading, increased competition from other centres, and the resolution of problems at Lloyd's are this year's agenda items

One way or another, this is going to be a year of profound change for London's international commercial insurance market.

Most obviously, Lloyd's of London - the market's centrepiece - has the chance, at last, to resolve the terrible legal and financial problems which it has faced in the 1990s. Lloyd's investors, the Names, will this June or July vote on whether to accept a complex out-of-court settlement offer worth £2.8bn.

At the same time, Lloyd's plans to transfer billions of pounds of US asbestos and pollution liabilities into a new reinsurer company, Equitas. But there are other forces causing upheaval across the market. London-based insurers are having to adapt to the emergence of electronic trading systems - commonplace in other financial services but slow to penetrate commercial insurance because of the complexity of such transactions.

The London Insurance Market Network (Limnet) is expected to provide from this summer a fully operational trading system, or "electronic trading support". In theory, Limnet could cut out much administration and many time-consuming tasks currently handled face-to-face.

More importantly, electronic trading should lead to dramatic cost savings. A report last year by Coopers & Lybrand estimated that annual cost savings of £200m a year would be possible from a streamlining of the market's organisation and more effective use of technology.

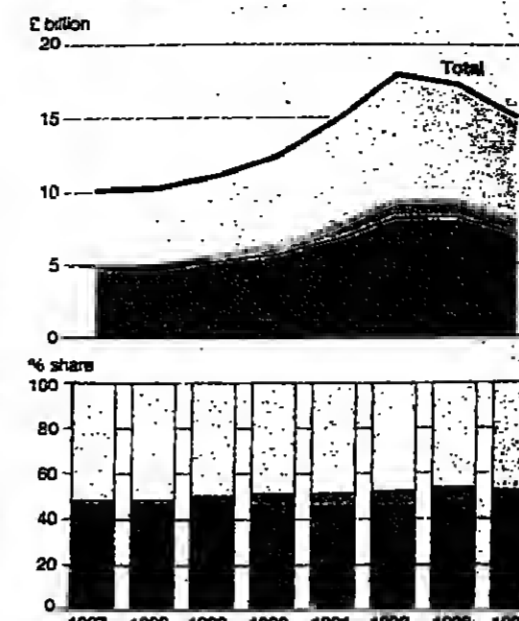
But electronic trading will - at best - only put London ahead of other insurers for a short time. Mr Mark Brockbank, chief executive of the Brockbank group of Lloyd's managing agents, says: "We have to be there but it is not a question of gaining advantage. It is a question of keeping up."

As Mr Brockbank points out, the large international brokers on whom the London market relies to supply business, are setting up the World Insurance Network (Win) which could result in business travelling at the speed of light to other insurance centres such as the mid-Atlantic tax haven of Bermuda or in continental Europe.

The strength of that competition was implicitly acknowledged last month by the London International Insurance and Reinsurance Market Association (Lirma) - a rival trade association to Lloyd's - when it announced it was opening membership to insurers elsewhere in Europe which do not have London offices.

Crucially, the move gave access from non-UK locations to Limnet and the London Processing Centre, run by Lirma with London marine policies and which processes policies and claims. The aim is to

#### London Market gross premium income by institution



Source: AIA, Corporation of Lloyd's. \*Premiums for P&O/Cuba do not include all Clubs prior to 1990

strengthen London's importance by increasing the amount of business passing through it.

Mr Philip Marcell, Lirma chairman, said: "We are the last part of the financial services industry to think about this sort of [technological] change and we need London to be in the forefront of that change."

And competition is getting fiercer. London has lost some of its edge as a centre for reinsurance - protecting other insurers against big losses. Last year a survey by the Reinsurance Association of America put Bermuda ahead of the UK as the biggest foreign provider of reinsurance cover to US companies.

In other sectors, rates have been falling steeply - albeit from highly profitable levels in

recent years - as competition from other centres has intensified. "There is too much capacity about and if London won't play ball, business will just stay in America or go to Bermuda," says Mr Roman Cerdyn, insurance analyst at Merrill Lynch.

Some have felt the pressure more than others. Commercial Union, the UK-based composite, has all but pulled out of non-marine reinsurance. General Accident, another composite, has said it is considering a sharp reduction of loss-making activities.

No longer is it sufficient for London market activities to be regarded as a sideline by an insurer. The successful participants have large capital bases and highly-rewarded, professional staff.

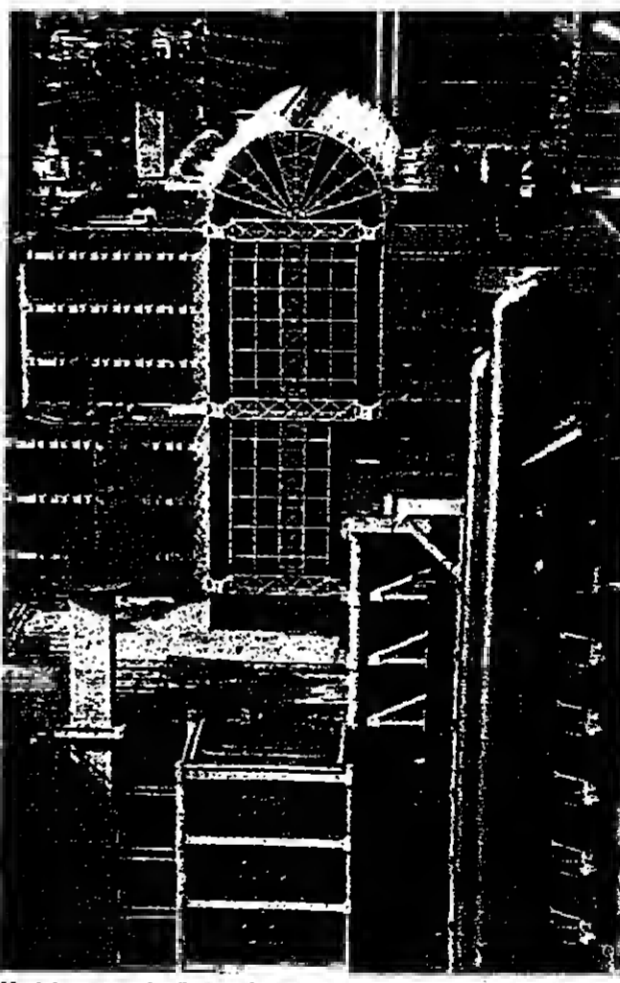
With the large continental

Underwriters (representing marine, aviation and transport underwriters) - will increase.

Much depends, of course, on successful implementation by Lloyd's of its recovery plans. The managing agencies have contingency plans should it fail. Undoubtedly many could quickly re-emerge under the umbrella of other insurance companies and associations.

But the failure of Lloyd's - the largest, most experienced and best known part of the market - would besmirch the market's reputation, perhaps irrevocably.

So much hangs on Lloyd's complex series of proposals which seek to balance the interests of loss-making, litigating and angry Names with those of the continuing market. There has been much noise by all sides. Much is posturing and hard decisions will have to be taken this summer. A lot hangs on the outcome.



Much hangs on Lloyd's complex series of proposals. Picture: Jane Gil

## Cost of terrorism

An IRA bomb in London's docklands. Perhaps some £150m damage results. There are fears of a full scale resumption of terrorist attacks on the UK mainland, as the ceasefire announced in 1994 collapses.

It might all seem an insurers' nightmare, the sort of threat to their profitability which would force unpopular across-the-board increases in insurance premium rates.

In fact, although last month's bomb attack could push up the cost of terrorism insurance, the wider repercussions will be relatively minor. This is because the cost of terrorism attacks is borne largely by Pool Re, the state-backed reinsurance company set up after the 1992 bomb attack on the City of London.

Pool Re operates as a mutual. Its members - the main insurance companies - sell terrorism insurance on terms and conditions set by Pool Re. In return, Pool Re carries most of the burden of large terrorism claims, in effect removing terrorist attacks on large commercial properties as a worry for insurers.

By way of terrorism insurance, however, may be caught by a "no-claims" discount scheme operated by Pool Re. For 1996, the reinsurer agreed to collect only 60 per cent of the policy premium. The remaining 40 per cent

would be waived if claims on Pool Re did not exceed £75m. It is not yet clear if the Docklands bomb will breach that £75m threshold. Although the damage caused is likely to exceed £100m, that may not necessarily translate into Pool Re claims.

Some of the buildings affected are thought not to have been insured. Some protection would have been provided by Lloyd's of London syndicates which offer an alternative to Pool Re.

It would, however, only take a relatively small incident elsewhere on the UK mainland, to push Pool Re claims for the year above £75m.

The attention Pool Re is receiving may well revive a debate about how the scheme operates. There has been criticism from insurance buyers about its inflexibility - companies cannot choose to insure only buildings in vulnerable sites; they must insure all or none of their properties.

Its rates are also expensive, particular considering that prior to the 1993 IRA bomb attack on the City of London, unlimited cover would be provided as part of a standard commercial policy.

The problem with that idea

is that a terrorist bomb attack could then affect commercial insurance costs for a larger number of companies. For now, many with properties that might become IRA targets are simply satisfied there is somewhere to buy cover at all.

Ralph Atkins

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Life Industry by Alison Smith

# Cheer despite the gloom

### In a climate of increasing competition, the winners will be those with lower costs and more flexible products

The UK life industry has been through difficult times over the past couple of years. A sharp decline in new business has combined with mounting competition and rising costs to make selling life assurance, pensions and investments much less attractive than it used to be.

three months of last year, the year as a whole saw sales of regular premium policies lower than at any time in the decade so far, while for single premium policies, sales levels were lower than in 1994, 1993 and 1992.

Last autumn, Mr Scott Bell, managing director of Standard Life, the UK's largest mutual insurer, told a conference: "An ageing population, a growing service economy with a greater proportion of part-time workers facing more uncertainty, and the contraction of the welfare state, are all combining to create a market which will require more protection and pension provision."

A mutual life insurer, has put itself up for sale, and anecdotal evidence suggests that there are well over 30 life companies available for acquisition at the moment.

Employers' liability by Claire Wilkinson

# Concern over claims trend

### Provision of cover for occupational disease risks is still particularly difficult to make

In a landmark ruling last January, the High Court, Newcastle, judged that British Coal had been negligent in not dealing with health risks arising from the occupational disease Vibration White Finger (VWF). Compensation claims against the company from around 500 present and former miners are expected to follow.

write can be managed you can go a long way to managing your exposure.

Employers' liability has been an unprofitable line of business for insurers. Between 1989 and 1993 the ABI estimates that insurers paid out £1.50 in employers' liability claims for every £1 paid in premiums.

Since then, Clerical Medical, regime as onerous, they also believe that it can be hard to penetrate other European markets, and that the German market in particular is one where it is hard for foreign companies to make an impact.



Prudential chief executive Peter Davis: the Pru has for some years been seeking to build up a presence in east Asia

prospects for growth are less dramatic throughout Europe than in Far Eastern economies.

Prudential, the UK's largest life assurance group, has for some years been seeking to build up a presence in the Far East. Its longer-established businesses such as those in Singapore are profitable, although other operations, such as those in Thailand and Indonesia, are not yet making significant profits.

The great prizes in Asia for any life insurer are the prospect of access to the Chinese market and the likelihood that the Indian market may also be opened up.

interest in entering this market. For European insurers, such possibilities will add significantly to their profits only in the long term.



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IV INSURANCE

Technology: by Rod Newing

# Legacy systems show their age

An early user of computer systems, the industry is now exploring a number of new means of cutting out paperwork and improving customer service

The insurance industry pioneered the commercial use of computers in the early 1950s. The big insurance companies started by using them for actuarial calculations, but soon realised their potential for transaction processing.

As they learned how to get the maximum commercial benefits from computers, they built massive mainframe applications which allowed them to expand their businesses very quickly to a size which would have been unmanageable with manual systems.

Unfortunately, these early advanced systems have become today's deeply embedded legacy systems. They are expensive to maintain at a time when costs are under tremendous pressure.

"The industry built very large scale systems in the 1960s and 1970s which were enhanced with tremendous functionality for old products and channels," says Mr John Chrysler, president of the insurance division of EDS, the global information technology services company. "They built an infrastructure which has become a barrier to the adoption of new technology."

It will take a long time to re-engineer some of these systems, so the insurance industry is having to resort to a series of measures to help reduce costs around the periphery. These include data warehousing, electronic commerce, use of the Internet, kiosk retailing, workflow organisation and many others.

Using data warehousing techniques, valuable data in legacy systems can be unlocked by cleaning it, and by transferring and integrating it into a separate open client-server relational database. It can then be accessed for decision support by a wide range of end-user tools, including Enter-

prise Information Systems. Integration involves combining transactions with the same customer from separate systems which might exist for life assurance, vehicle, household, pension, medical, and other areas. This enables the organisation to understand its customers better and actively to target further products at them.

Mr Chrysler is enthusiastic: "Data warehousing frees decision makers from the limitations of the highly structured legacy systems and provides them with information at any time in any form."

Mr Bill Inmon, who invented and developed the concept, says: "In the insurance industry, the leaders in data warehousing have been the medium sized and smaller companies. The large companies are struggling because the size of the legacy data problem is so great."

Mr Andy Daniels, IBM's UK insurance specialist, says: "There is no reluctance to invest because it clearly gives a competitive advantage. It only requires a 0.1 per cent improvement in managing policy risk to pay for the infrastructure and management of a data warehouse."

The insurance industry has targeted the cost of handling paper and introduced workflow systems to allow employees to work with digital images of correspondence and forms. The latter can often be read by software and automatically input into the systems.

This brings tremendous additional advantages in customer service through speed of processing and immediate access to information. These systems can be implemented using departmental client-server systems, with a back end interface to legacy systems.

Prudential, one of the world's top 10 life insurance companies, has implemented a 550-user system from Cambridge Technology Partners which will increase staff productivity by more than 30 per cent, resulting in an estimated 55m annual reduction in costs.

The next stage is eliminating paper comes through electronic commerce, which passes structured data between computers. It operates across the supply chain, between client



Legacy from the 1950s: an IBM mainframe computer

companies, brokers, direct insurers, re-insurance brokers, re-insurers and retrocessionaires, as well as suppliers and regulatory authorities.

This allows direct transfer of electronic information without human intervention, speeding up the process and reducing the costs. "On average, information is re-keyed 14 times in the London Market," claims Mr Charles Taylor from the IBM Global Network.

"Insurance is one business activity which hasn't fully accepted electronic trading so far, primarily due to its complexity," explains Mr Roger Summers, managing director of Datasure, the market leader in electronic insurance systems in the London market.

"Forward thinking broking and underwriting organisations are now accepting the concept for risk placing, closing and accounting."

These electronic trading networks can act as a front end to old legacy systems. The UK has led the world in developing electronic trading, but its use is beginning to spread. A number of initiatives have developed recently. Established in 1987 and managed by IBM, the London Insurance Market Network (LIMnet) is the biggest, covering Lloyd's, brokers, underwriters and reinsurers.

It is still being expanded, but current usage is running well ahead of target and Lloyd's

estimates that it has saved 61 pence per transaction compared with paper-based systems. Other initiatives are following, including Commercial Lines Market Initiative, Polarix for personal line, Origo for life and pensions and the World Insurance Network, covering the world's six biggest insurance brokers.

With pressure to reduce the cost of sales and distribution, the Internet offers other new and cheaper ways of creating additional business opportunities. "The Internet holds the promise of reducing distribution costs by 20 per cent, which insurance companies can't ignore," says Mr Chrysler.

However, it is still very early days in the development of Internet-based applications and the final form they will take has yet to be established.

"The Internet will change the value chain in insurance, but we are still not sure how," admits Mr Taylor. Pilots for genuine applications are now being built and experience with these will give an indication of how this new channel can be effectively exploited.

Multimedia kiosks are essentially personal computers equipped with touch screens, sound and video, often fitted into attractive displays. They can be placed in any public area, allowing existing and potential customers to browse and seek information on spe-

cific products, inputting details about themselves to get immediate quotes. They can place orders or link to an expert through a video link when they are close to committing.

This approach, which can be linked to a legacy application by high speed links, collects valuable information from clients and reduces the costs of handling their inquiries. Kiosks increase the number of places which can act as outlets.

Much of the stimulus in the UK has come from Direct Line, which sold motor insurance using quick and simple systems for operators, linked to powerful underwriting systems for analysing and managing risk. This model allowed them to undercut the traditional channel and to take a 12 per cent market share.

"Direct Line's approach to the market was based on IT from day one," explains Mr Chris McKee, Direct Line's underwriting and claims director.

"Ten years later we are developing systems to keep us ahead at a time when others are working just to get level."

Using the telephone as its sole distribution channel, established Direct Line to centralise and base all its operations on IT systems. "As a result, we give quotes faster, know the precise state of our business second-by-second, and remove huge layers of paper-based administration in the process."

"It is efficient and productive in ways that high street brokers can only dream about. Direct Line staff are among the most productive in the world. Staffing is planned carefully around the patterns of incoming call volumes so no-one is either overrun or left twiddling their thumbs," Mr McKee notes. Direct Line had the further advantage of building its systems from scratch.

Whereas innovative information technologies are being used by many organisations to mitigate the cost of legacy systems, they are equally valid for modern client-server systems. The insurance industry is making a big effort to harness IT in the battle for competitiveness, but organisations still have a long way to go and there are some fundamental decisions to be made.

Risk management: by Ian Gretton

# An expanding role

Organisations, and their risk managers in particular, are taking a much broader view of risk

No commercial enterprise and no element of corporate decision-making is free of risk - regardless of a company's size. And at the heart of all risks is the manager whose job it is to identify, evaluate and control it.

Risk management is a relatively new but increasingly influential business skill which many organisations in both the private and public sectors still have to embrace. It is also still a misunderstood profession, because a common perception is that it merely entails buying insurance or managing financial risks.

While risk financing does form an important part of the risk manager's job, the role is constantly expanding and senior management is increasingly coming to rely on the risk manager to identify, eliminate or make provisions for big exposures to their businesses.

The development of global companies has inevitably resulted in the development of global and complex risks. Nick Lessen, the jailed trader who brought down Barings, was not the first dealer to lose a fortune of his employer's money, and will not be the last. The speed of transfer of funds can create nightmare scenarios unless those funds are properly risk managed.

There are natural risks, such as earthquakes and hurricanes. Despite huge insurance claims as a result of the storms which swept Britain in October 1987 and January 1990, climatic changes were not regarded as a significant risk to business by respondents in a survey last year among the UK's 360 top companies by Nottingham University's School of Finance.

But insurance companies are believed to be reviewing scientific data on climate change to determine whether they can continue to provide catastrophe cover for natural and weather perils.

There has been a gradual shift from the traditional way

of protecting against risk through insurance companies. Increasingly more business is being placed through arrangements with banks and leading organisations' own offshore companies.

Modern communications have created their own risks, not only in electronic trading, but in manufacturing, retail and distribution, where there is more reliance on automated processes. This means that an interruption such as a computer systems failure or fire can literally wipe out a business which relies on serving its customers on a daily basis.

There are inherent risks in computer systems, buildings, air conditioning systems, manufacturing processes, and equipment, materials movement, product liability, theft and many other fields.

This climate of change has raised the profile of the risk manager from simply being a buyer of insurance, to the point where management experts believe risk management will have as much influence on business strategy in the next decade as decentralisation and re-engineering have had in the past 10 years.

In a survey last year, the Association of Insurers and Risk Managers (Airmic), which is second only in size to the Risk and Insurance Management Society (Rims) in the US, and has 160 corporate members - most from the top 200 UK companies - found that 90 per cent of its 760-plus individual members had responsibilities over and above buying insurance.

"This is firm evidence that risk management has come of age," it said. "There is an understanding of the full range of risk management techniques available and how they can benefit impact on a company's bottom line."

Mr Felix Klossman, a US risk management guru, says: "Risk managers create opportunity, rather than being reactive to risk, and enhance the competitive advantage for their organisation."

Risk managers have developed from being insurance buyers to managers who have responsibility for practical risk identification, assessment and financing. For example, how

much might be saved by companies identifying natural risks at an early stage in investment programmes and designing preventative measures into new buildings?

Ensuring that staff are properly trained and avoid creating hazards by following good working practices is a vital aspect of risk management - the more so since employers' liability has become a big issue facing industry and commerce. Making employees aware of such issues as the consequences of sending out faulty products and training teams to fight fires are important factors. Introducing a smoking ban, regularly checking electrical equipment, and installing sprinklers and smoke detectors are just as important as buying the right insurance policy.

As more and more leading companies rethink their traditional approach to risk and insurance, risk managers will inevitably play a more important role in helping directors to make strategic decisions.

Organisations and their risk managers are taking a much broader view of risk, defining the political issues, climatic changes, demographic changes and even fundamental religious issues which could lead to terrorism or civil war.

"Risk will have to be evaluated in terms of the overall estimate of the probable frequency, probable severity and public perception of the harm to arise," says Airmic.

"Factual decisions will be the responsibility of operating management. Risk managers will set the policy, communicate that policy and educate staff at all levels in risk management and, wherever possible, give them the tools to do their jobs safely."

"The use of sophisticated risk management systems to track incidents and the cost of claims is now a vital part not only of the risk management armoury but is increasingly becoming part of the mainstream management ethos in progressive companies. There are already plans to run risk management programmes on the Internet."

The author writes for Stuart Hylop Editorial Services. See also Page X

RETIREMENT

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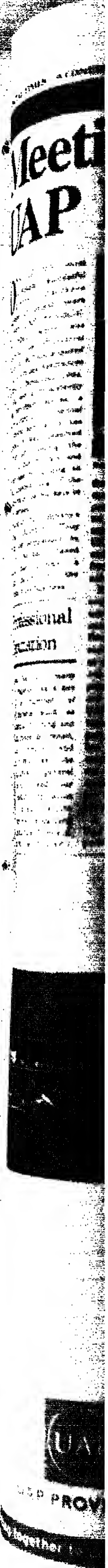
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# Meeting and exceeding expectations - UAP Provincial builds for the future.

ONE of the most consistently successful general insurance businesses in recent years has been UAP Provincial. The Company, which was established as Provincial Insurance in 1903 and acquired by UAP (Union des Assurances de Paris) in November 1994, has long been a consistently strong performer across a broad spectrum of commercial and personal sectors. It has established a well deserved reputation for meeting the needs of its intermediary and customer base by building an in-depth understanding of the requirements of the markets in which it operates.

According to the Company's Managing Director Tony Davidson, the acquisition by UAP of Kendal based Provincial has proved a significant factor in the development of the business.

## A Professional Reputation

"Provincial had for many years been regarded as a key player in a number of important markets, such as small commercial, building and construction, goods in transit, commercial property and liability, as well as the traditional domestic general insurance field. Indeed, our professionalism and reputation as a commercially astute operator were well recognised characteristics of the Company. Joining together with UAP -



Tony Davidson, Managing Director.

the second largest insurance company in Europe - has proved to be an ideal match, as we can now combine our experience and expertise in the UK with UAP's capability and understanding of larger risks, frequently operated at a multi-national level."

But how well is this combination of strengths working? "Our financial results speak for themselves," says Davidson. "Our performance across 1995 - our first full year as part of the UAP Group - has produced an extremely pleasing result; although we are only a small part of the UAP Group in terms of turnover, we are an important part in terms of profit. This has been achieved without sacrificing our standards or our commitment to customer service, as these are the two key factors which will sustain our success in the long term."

A full breakdown of UAP Provincial's financial performance in 1995 is detailed

in the Companies and Markets section of today's Financial Times.

The Company formally changed its name on 1st January this year, adding the UAP prefix to its title. How significant does Davidson see this development, and does it underline the Company's ambition to develop its product portfolio? "I firmly believe that intermediaries, customers and employees alike are comfortable with the change," says Davidson.

"It reinforces the complementary strengths of the two companies' reputations, and ensures positive recognition for us as we grow for the future."

## Capacity and Expertise

Typical of this growth to which Davidson refers is the establishment of Paneurorisk, UAP Provincial's facility for insuring large national and multi-national risks, not only in the UK but also on a global basis. "Paneurorisk is driven in the UK by our London operation," comments Davidson, "but we're now able to offer this facility through our offices in Birmingham, Manchester and Glasgow - giving us a truly national presence in this important market." This additional dimension has been given a boost by the integration last



J. P. Rignault, Senior Executive, London.

year of the former UAP UK branch with UAP Provincial's own London office. "We have created a centre of excellence which is now capable of handling risks of all sizes," says Davidson. "Furthermore we are now able to offer capacity and expertise formerly unavailable to the Company."

Asked for his views on the future prospects of the Company,

Davidson is confident that UAP Provincial can maintain its successful performance record. "We are well placed to maintain our development, despite the softer market conditions we face in the current downward swing of the UK insurance market. We understand the sectors in which we operate, and we have also been active in developing our distribution strategy to ensure that we are able to provide insurance solutions to a broader base of clients." Whilst accepting that the Company can't buck the trend as far as the underwriting cycle is concerned, Davidson believes UAP Provincial can perform discernibly better than the competition and his goal is to do just that.

of the leading insurance companies to embrace the advantages of IT in the last decade," asserts Davidson. "Our investment in EDI - electronic data interchange - has paid off; over 60% of our new private motor business is now transacted in this way, and I have no doubt that an increasingly significant proportion of all our activity will move in this direction in the coming years."

In summary, Davidson believes that UAP Provincial will continue to build its reputation of being able to handle a broad range of insurance requirements for an expanding portfolio of clients. "Our current advertising campaign says it all," concludes Davidson. "From the smallest to the largest risk, we are now in an ideal position to meet and exceed the expectations of our intermediaries and customers alike."

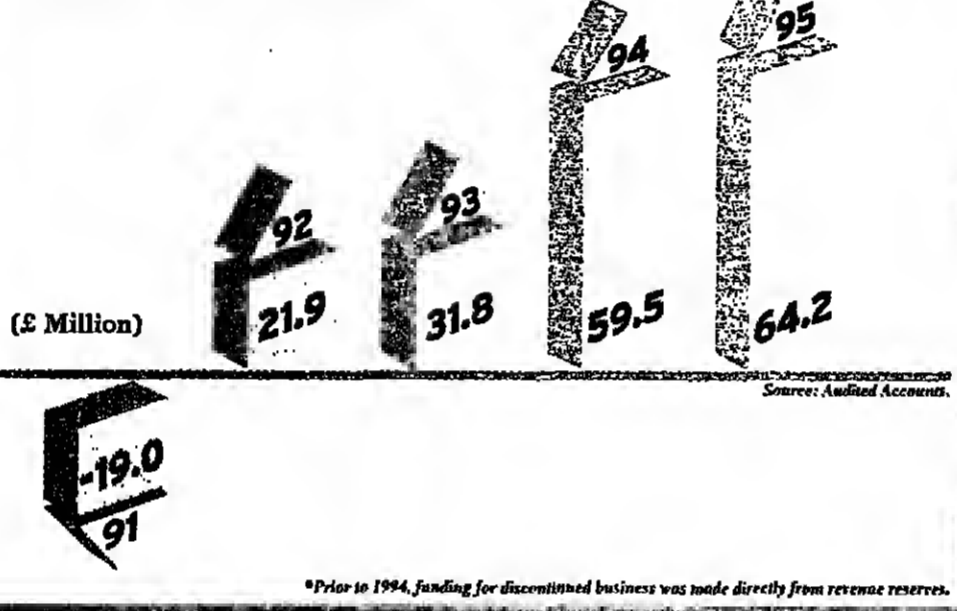
## Fast Expanding

UAP Provincial is tackling the fast expanding personal direct sector through its Prospero Direct operation, and the Company's Direct Sales Channel meets the needs of smaller commercial customers. "Healthy performances from all our distribution channels contribute to the overall success and viability of the business in a fast changing environment," comments Davidson.

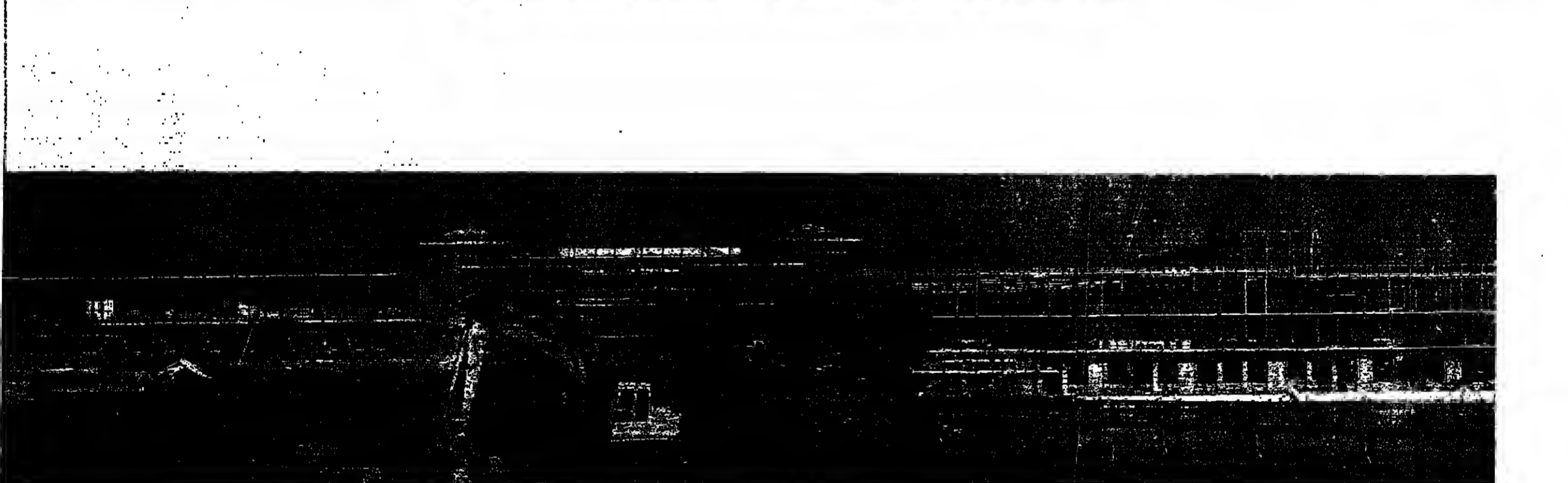
Such change has been particularly notable in a sector which had been slow to evolve until only very recently. "UAP Provincial has been one

If you would like to receive a copy of UAP Provincial's corporate brochure, then fax us on 01539 794199.

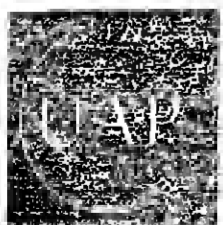
### Pre-tax Profits 1991-1995



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## VI INSURANCE

Continental Europe: by James Ball

## The outlook is far from positive

There is a gradual shift to a new distribution pattern as smaller insurers come under threat

As Europe moves towards its dream of a single currency, it remains evident that there is still little sign of a single market in insurance. Rather, the industry remains strongly local in its domestic retail markets while becoming increasingly global in the more specialist wholesale sector.

Successive EU Directives have attempted to encourage competition but the fact is that national traditions - whether enforced by legislation or simply the result of prejudice - continue to dominate buying patterns and are more likely to be changed by cost and technology than by official ambitions in Brussels.

Globalisation of the market is best illustrated at the opposite end from the retail sector as big commercial customers shop around to place their risks. In specialist credit insurance, for example, the European market is dominated by a handful of companies.

The reinsurance giants which provide the backstop to the industry as a whole have also been consolidating to secure their financial strength and increase their profitability through better identification of risk. These developments were driven by insurance logic, not by EU legislation: in fact,



Dias: key needs identified

although Munich Re, the world's biggest reinsurer, is based in an EU country, its main competitors are Swiss Re and Employers' Re and General Re of the US.

A similar logic lies behind the current developments in the retail sector in Europe. "The main barrier was not regulation in itself," says Richard Urwick, an analyst with Schroders in London, "but distribution."

In that sense, he argues, the EU campaign for deregulation and increased competition was irrelevant. But Urwick notes that it has helped to encourage innovation in the construction and delivery of the product to the retail market as insurance companies concentrate on what they can do - insurance in the strictest sense - while

sub-contracting the ancillary functions such as investment management and marketing to specialists.

Stephen Dias, insurance analyst at Goldman Sachs, says that the key needs are distribution and the search for synergies in products and expenses.

From the retail consumer's point of view, the most obvious change is in the distribution system. The relationship between the insured and his insurance provider (whether underwriter, agent or broker) is moving from the personal or even face-to-face to the distant as direct retail selling by telephone, pioneered in the UK, has spread throughout Europe.

Although it accounts for only a small share of the market at the moment, the practice is slowly chipping away at the role of the brokers and agents. For example, even in the conservative and under-insured Italian market, where 80 per cent of consumers say they prefer face-to-face contact with their local agent, a recent survey by SAI, the country's largest motor insurer, estimates that direct writing could take 10 per cent of the business by the year 2000.

Even Assicurazioni Generali, the Trieste giant which dominates the industry, has moved into the direct business, recognising that the potential for growth will come from people who have not insured in the traditional manner and may be reached by telephone.

Those who want to see a friendly face and discuss their

insurance needs may prefer to visit their banks, however. Bancassurance, the cross-selling of banking and insurance products, has been the general European preference, partly because of the relative lack of actuarial information in comparison to the heavily penetrated markets such as those of Switzerland and the UK (where good and bad drivers can respectively, be targeted and rejected) and also as a result of the prevailing herd instinct and the traditional European love of cross shareholdings.

But the saving in costs can be impressive: Urwick of Schroders estimates that a bank network can cost only one third of traditional distribution.

The most spectacular example of bancassurance is ING of the Netherlands, formed in 1980 from Nationale Nederlanden, already a leading insurer at home and abroad, with NMB Postbank, a bank with a strong presence in emerging markets and domestic penetration through the post office network.

ING has been a remarkable success story building on its 25 per cent share of its traditional life business with greenfield operations in under-insured markets. In the EU, its operations in Spain and Greece are profitable while its Eastern European businesses in Hungary and the Czech Republic have also hit profits ahead of schedule.

But the difficulties of bringing together insurance and

banking cultures has meant that most alliances have been forged on a case by case basis which enable specialist partners to exploit their own skills.

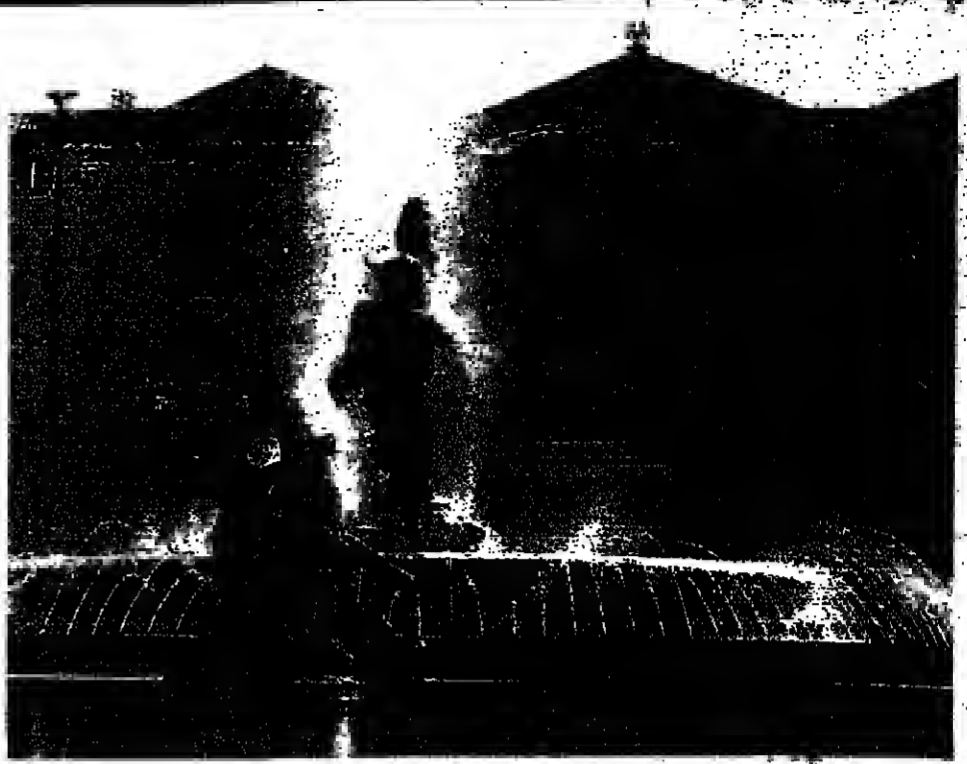
Such deals may allow access to new markets for insurers which have the technical expertise but lack the brand name and distribution networks. In January, Commercial Union, a British composite insurer, and Assurances Générales de France (AGF) decided to set up a joint venture with Société Générale, a French bank, to sell non-life policies.

The three companies already have small cross-shareholdings and intend to sell motor and domestic policies from next year. The bank will contribute its branches and 80 per cent of the joint venture while the two insurers will each take 20 per cent of the new operation.

The business follows another venture between Credit Lyonnais and Germany's Allianz and will add to AGF's market penetration through an agreement in 1995 to sell life policies through the French post office network.

The search for distribution is not limited to bancassurance. In Switzerland, for example, Baloise has concluded an agreement with TCS, the country's automobile association, under which TCS will be an exclusive intermediary for the insurer.

Given that more than half of the Swiss population are members of TCS, analysts at Goldman Sachs estimate that Baloise could lift its share of the



Rome: In Italy, the role of the agents was highlighted by events coinciding with the privatisation of the INA.

motor market from its current 9 per cent to 12 or even 13 per cent.

Insurers have also moved to expand through acquisition of each other.

There was a wave of takeover activity in the 1980s and early 1990s, says Dias's team at Goldman Sachs, which was temporarily slowed by general financial difficulties and operating conditions in non-life markets.

More recently the trend has been reversed, they say, citing the examples of Winterthur's acquisition of DBV, Commercial Union's purchase of Victoire and Swiss Re's withdrawal from the market

through the sale of Elvia and Lloyd Adriatico to Allianz.

However, some of these acquisitions may have been driven more by faith than strategic logic. According to Goldman Sachs, "if direct writing does work, some of these recent acquisitions may, with hindsight, seem expensive."

Moreover, these cosy alliances do not always work. One of France's top insurers, AXA, finally had to seek a divorce from Assicurazioni Generali (the two were linked through cross-shareholdings) at the beginning of the year.

These developments to improve distribution direct lines and bancassurance are also starting to threaten the traditional role of the agency structure in the continental countries. In France, for example, these general agents (professionals in the same sense as lawyers and accountants) will soon be allowed - and effectively forced by the pressures from direct writing and bancassurance - to become limited companies with the ability to protect their personal assets and to look for capital from outside investors.

In Italy, the role of the agents was highlighted by a number of events coinciding with or caused by the privatisation of the Istituto Nazionale delle Assicurazioni (INA). Charges of malpractice levelled at certain agents and the alliance with the Banca di Roma

to provide a new distribution network provoked opposition from the self-employed professional group which had exerted a stranglehold on INA's premium income.

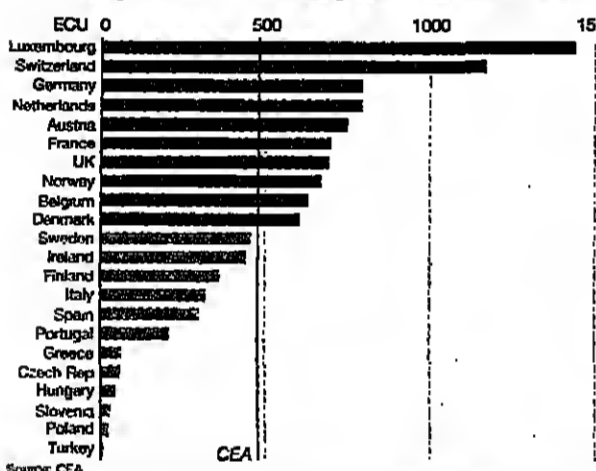
While agents will continue to deliver a substantial portion of business to the insurers for the immediate future, many expect that there will be a gradual cultural shift towards the new distribution outlets. "It will happen," says Urwick, "but not in the short term."

But perhaps the biggest threat lies to the insurers themselves and, in particular, the second-tier participants who lack the financial strength to support their traditional business through investment, in information technology and to deliver that professional strength to their new partners. The signs are not hopeful.

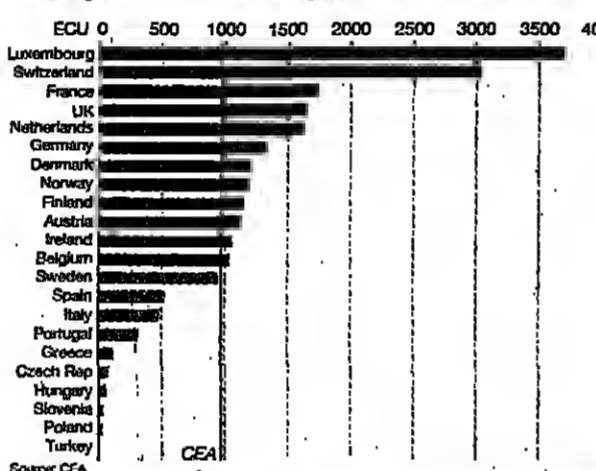
According to Kleinwort Benson's 10-year Pan-European index of insurance stocks, the industry managed to combine a record 1995 - good underwriting ratios and a relative lack of capacity - with a flat stock market performance and the outlook for 1996 is far from positive.

Rates are under pressure in most countries. France is a notable but peculiar exception and the Netherlands is roughly stable but, elsewhere, the prospects are bleak with particular problems facing the formerly tightly regulated market in Germany.

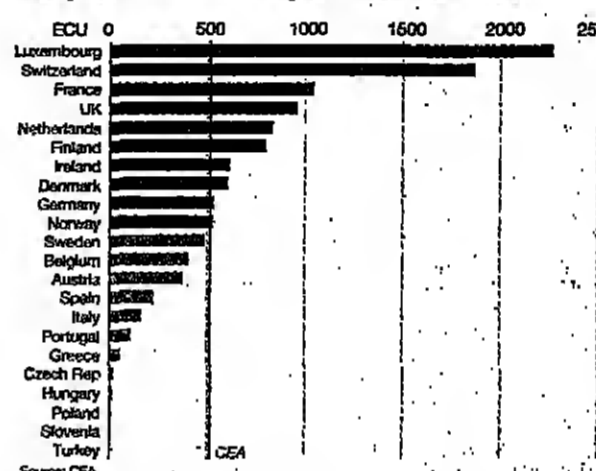
## Non-life premium income per inhabitant 1994



## Total premium income per inhabitant 1994



## Life premium income per inhabitant 1994



The single market: by Trevor Petch

## Distant and elusive prospect

Marketing of large risks across borders in Europe is still not seen as a very attractive option

1992 is coming but we don't know when," a German insurer once observed. Although the single European market in insurance came into full effect on July 1 1994 - including the countries of the European Free Trade Area as well as the 12 European Union members - a European market without singularities is still many years away, and well beyond the introduction of a single European currency.

There are a number of obvious reasons why. The cultural differences between European countries go deeper than language. There are important differences in taxation regimes, in health care and social security systems and in legal practice, and all these affect insurers indirectly as much as the differences in insurance tradition affect them directly.

In some countries, such as Britain, insurers pay a levy to a fund to reimburse policyholders with failed companies. In others, such as Germany, such a fund is opposed as encouraging reckless business behaviour.

There are also significant differences in insurance contract law. In 1976 the EC first began to draft a directive introducing harmonisation in this area, but after 15 years of wrangling, the Commission gave up the attempt, much to the regret of the European insurers association, the Comité Européen des Assurances (CEA). Harmonised insurance accounting regulations finally came into force for accounts published this year, although with a number of alternatives and delay clauses.

For all these reasons, marketing of products such as life or motor and household insurance - the so-called mass risks - cross-border does not look a very attractive proposition. Because local customers still require local services, far more use is being made of the "single passport" the ability to establish an operation in another member-state by simple notification, with the responsibility for supervision remaining that of the insurer's home country.

The market in large risks, the insurance needs of leading

industrial and commercial customers, was already much more international. But even in this area the complexities arising from legal differences make the drafting of a true European insurance contract on a freedom-of-services basis impossible, according to Mr Francis Lohéac, president of the CEA.

Introduction of the single European currency will only make a marginal difference. For many insurers, the initial impact will be the incurring of transition costs, with benefits in productivity only accruing slowly thereafter, the CEA concludes.

The Association of British Insurers (ABI) is of the same view, pointing out that Lloyd's and the London reinsurance market receive little business direct from Europe, and conduct much of that in dollars, reducing potential benefits from reduced transaction costs.

European reinsurers take a more positive view. "We are all in favour of the common currency, as soon as possible," says Mr Jacques Blondeau, president of the big French reinsurer SCOR, emphasising that anything which makes administration simpler is an advantage.

The single market may not be homogenous, but that does not mean that it has not already had profound effects. These have affected in particular those countries which have traditionally exercised strict control of insurance policy conditions and prices rather than relying on the UK style of financial supervision adopted by the EU. For these countries, such as Germany and Switzerland, the single market has been "a veritable revolution", according to Mr Lohéac.

In German industrial insurance, a number of elements contributed to development of a market very different from those of its main industrial competitors. The shareholding structure has required German insurers to produce levels of profit lower than those in the UK or the US, while - explicitly or not - they could subsidise losses incurred on relatively cheap insurances for big commercial clients with the ample profits from motor insurance, where rigid price control was imposed from the top.

As a result, industrial customers did not face the same pressure as in most of the rest of the industrialised world to



Frankfurt: German profits are lower

search for more efficient ways to manage their risks. By the early 1980s, most big corporations elsewhere retained a substantial slice of their property risk themselves as a deductible, and insured a further large element with a captive insurer they owned themselves. Risk retentions of a few thousand D-Marks - barely enough to cover severe damage to the boardroom table - are still not uncommon.

Over the past 18 months, this structure has begun to be swept away. From October 1 1994, industrial giant Siemens placed its insurance outside Germany for the first time, using International Insurers signed up by brokers Gradmann & Holler-Marsh & McLennan. Although this was the best-publicised development of this kind, it has by no means been the only one.

In mid-1995, market leader Allianz announced that it would abandon the industrial insurance tariff system operated by the German property insurers association (VdS), and henceforth would make its own evaluation of major risks.

Other leading insurers of industry such as Gerling and Colonia-Nordstern soon followed suit, effectively sounding the death-knell for another element of the system, the so-called "KoKo's". These committees of insurers and reinsurers set the insurance terms for all risks valued in excess of DM1bn (€675m) which might be one large chemical works, or a chain of 1,000 small iron-

gers. The KoKo system offered shelter to a large number of medium-sized insurers without the technical capability to assess large risks themselves, but which were guaranteed a share of the business under the expertise of the leading companies. The future of these "me too" insurers now looks uncertain.

In personal lines, German insurers must now respond to the challenge of creating new products, which their newly-establishing foreign competitors are often more experienced in developing. At the same time, they face a transformation of their traditional money-spinning motor business. As well as facing competition from new telephone-sales insurers, German insurers themselves have embarked on a price war, offering substantial discounts to supposed good risks on a basis which many observers doubt has been properly thought out.

Results for the past two years have been good, with collective profit of more than DM3.25bn on motor damage business, but that did not make up the DM6bn in losses over the previous four years as theft-for-export to eastern Europe took off. New policies based on car model rather than engine size are expected to be introduced by many insurers by 1997 and, whatever the impact, it is clear that it will in future be impossible to subsidise commercial clients with motor profits.

A similar challenge faces the Swiss motor market, deregulated from January 1. There, too, a discount war is in progress, sharpened by an impending head-to-head contest between the market leaders, Winterthur (with about 25 per cent) and Zurich (with about 22 per cent), in the telephone sales market.

Zurich's Zurich operation is already a focus for expansion in Germany, where Winterthur operates Deifin. Although Zurich has been in business in Switzerland for 18 months while Winterthur only announced the establishment of Swissline in January, the latter can draw on Winterthur's previous international experience, including Churchill Insurance in the UK.

Trevor Petch is editor of the Financial Times newsletters World Insurance Report and East European Insurance Report.

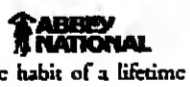


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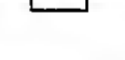
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The French distribution system by Andrew Jack

# Structural reforms continue

The growth of direct sales - inspired by the pioneering experience of Direct Line in the UK - is one of the most striking aspects

Assurances Générales de France, the state-owned French insurer which is one of the country's largest, owns an impressive business which offers the sale and management of motor insurance contracts by telephone.

There is just one problem. The operation is not based in France at all, but is a subsidiary of its Spanish business. Like a number of its rivals, AGF has shown an ability to innovate in foreign markets which is not always matched by a willingness to implement them domestically.

The growth of direct sales - inspired by both the pioneering experience of Direct Line in the UK, and by a number of telephone banking and phone shopping services in France - is one of the most striking aspects of the changing structure of the distribution of French insurance in the past few years.

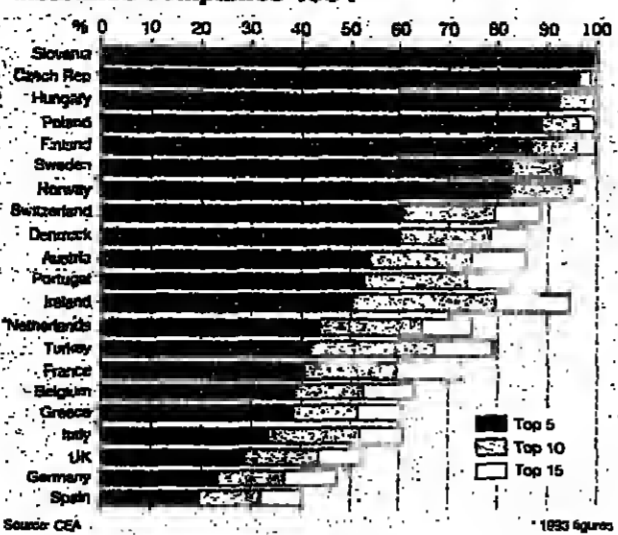
Most of the country's largest insurers use the technique to some extent. Yet they all prefer to keep a low profile on the subject, held back by both philosophical concerns about how effective the direct marketing approach will prove, and by tensions with their existing forms of distribution.

Even Caisse Nationale de Prevoyance, the state-owned group which is the largest life insurer in France with 17 per cent of the market, is looking at the idea. It said in March that it was studying the potential for direct marketing of its individual life contracts.

Such a move would be in sharp contrast to its existing commercialisation strategy, which is based instead on a series of accords with public sector partners: the Post Office, the Caisse d'Epargne savings network, and the local offices of the French treasury.

Yet at a time when the

Market share of non-life insurance companies 1994



French government is considering a partial privatisation, this existing external structure is one which some analysts consider fragile and, they suggest, may reduce its worth when the eventual sell-off takes place.

Equally, the status of its insurance sales network is not static. CNP's contracts with its three partners have a limited duration and they guarantee it an ever-diminishing market share from each supplier. Last year, for example, the Post Office began to diversify by selling AGF's "Valorée" alongside CNP's existing policies.

More generally, one brake on the move by the French groups into direct assurance is the country's almost unique system of "general agents". At last count, in 1994, there were some 17,440 of them. All are self-employed, members of an independent, liberal profession, and yet tied to a particular insurer in exchange for certain benefits and a geographical monopoly of its business.

Some claim that telephone sales have little chance of taking a large market share because France is a "Latin" country in which people prefer face-to-face contact when taking out insurance. While its potential is high, it currently accounts for a tiny proportion of the French insurance market: in 1994 just 4 per cent of life and 3 per cent of non-life sales.

General agents are a different story. They sold 42 per cent of the country's non-life policies and 14 per cent of life insurance in the same year. Yet the agents are also coming under threat. A decade ago, there were 22,600 of them. Now, the costs of keeping up to date and the growing types of competition for distribution have put them under pressure. Their market share of life insurance has also been falling, from 18 per cent for life

and 47 per cent for non-life in 1990.

That is one reason why they agreed, after successive previous attempts had failed, to enter serious negotiations with the French federation of insurance companies last year. The result was an outline accord in February which represents the first significant shift in the structure of the industry since 1949-1950, when legislation governing their relations with insurers was passed.

The new agreement needs to be approved during April by both the insurance companies and the agents in meetings of all their members. Yet if it proceeds, it will provide considerably greater flexibility in relations between the two sides which could help the agents guard or even increase their market share in the coming years.

Another competitive pressure has come from financial institutions. Many of the leading French banks have launched themselves heavily into life assurance sales, taking advantage of their widespread branch networks to sell policies. Some have operated in alliance with insurers, but others have done so alone. The branches of public and private institutions accounted for 54 per cent of life sales in 1994.

Now the banks are beginning to eye the non-life market with interest - in which they presently hold only 3 per cent of the market. Societe Generale, Credit Lyonnais and Credit Mutuel are among the institutions which plan considerable growth in this sector in the coming years - at the expense of their insurance rivals.

Meanwhile, the French Post Office is also showing increasing evidence of exploiting its network of 14,000 branches. It currently sells life insurance policies for CNP, and Valorée which was developed for it by AGF. It has an agreement with the French insurers not to sell non-life policies. Yet this informal accord comes to an end in 1995. Mr Jacques Lenormand, deputy managing director at the Post Office, recently denied that there was any current project to move into the non-life market. But many suspect it will not be long after January 1 next year before the situation changes.

European health care by Vanessa Young

# Private sector's role grows

Providers throughout Europe have begun to realise the importance of diversifying their offerings

As the cost of providing healthcare becomes prohibitive for governments across Europe, ways of shifting some of the burden from the public to the private sector have come under closer scrutiny.

Figures from the 28 member countries of the Comité Européen des Assurances (CEA), Paris, show a rising trend over a number of years in health insurance business, even though growth rates slowed somewhat in 1994.

Benefits paid to policyholders increased by 8 per cent to 10 per cent across all countries, owing to longer life expectancy and the use of more costly technology and new medical operating techniques.

The CEA is currently studying the costs incurred by all health insurance operators for all types of cover whether as a substitute or alternative to the state health system. It has concluded that while there has been a slowdown in premiums, "the role of private health insurance as a substitute for state provision is confirmed, despite economic difficulties and a worsening social environment".

Cover for medical expenses (PMI) represents by far the largest sector of the private health insurance market in the UK. Health care analysts, Laing & Buisson, estimate premium income from such business was £1,650m in 1994, up 7 per cent on 1993. The subscriber base, which had stagnated in the early 1990s also began to show some growth again, it said, but future expansion would be dependent upon a number of factors including product innovation and new methods of distribution. General insurance brokers and independent financial intermediaries held significant potential as did the development of direct sales, the report stated.

The announcement that Guardian Direct, the direct



Seehofer: warned of increase

sales arm of composite insurer, Guardian Royal Exchange, and the first to launch an operation selling health cover by telephone in the UK, had outperformed financial targets set for 1995 and had policyholder retention rates exceeding 85 per cent, would seem to support this forecast.

UK health underwriters will need, however, to diversify their product range, developing more flexible coverages in order to meet changing lifestyles and needs. The health strategy unit of London-based Mercantile and General Reinsurance says that it expects to see a greater "bundling" of products in future, with some blurring of distinctions between covers.

Contracts are also likely to become longer term, as these are ultimately cheaper for insurers to administer and more portable for the policyholder. This is a trend reflected in the lifetime healthcare plan recently launched by Legal and

General which combines three elements of medical expense cover.

In the Netherlands the market is currently undergoing considerable change with the government reducing public provision but still likely to play a big role in healthcare provision in future.

Consolidation in the insurance sector through mergers and alliances between private health underwriters, the Ziekteverzekering (public health insurance funds) and life and non-life insurers, continued in 1994, but is likely to tail off in the next two to three years. Co-operation is strengthening, however, and the need for cost reductions and new products has become increasingly important.

Zilveren Kruis, a private health insurer, has recently relaunched its existing non-life and life products, and has developed new lines, including home income plans and pharmacy-by-post, specifically suited for direct market sales channels. This has been carried out in conjunction with fellow domestic insurer AVCB Insurance Group, with which it merged in January 1995 to form Achmed.

Plans to limit the cost of hospital care in Germany are currently the cause of a dispute between the federal government and the Länder (eastern states). Health minister Horst Seehofer has warned that an increase in contributions to the statutory public health system, Gesetzliche Krankenversicherung (GKV) by one percentage point to 14.1 per cent of earnings may become necessary if agreement is not reached. The GKV, consists of more than

1,000 health funds and represents 90 per cent of the German population. It reported a deficit of DM7bn in 1995, after a DM2.4bn surplus in 1994.

Developments in the state sector are being watched keenly by the private health insurers which are represented by the Verband Private Krankenversicherung (PKV-Verband). The 54 member companies reported premium income up 10.9 per cent to DM28.5bn in 1994, while total losses ran to DM19.7bn, up 6.2 per cent.

The PKV also recognises the need for cost control, which has prompted a move by market leader Deutsche Krankenversicherung AG, Cologne, to call for the establishment of health maintenance organisations (HMOs) along similar lines to those already operating in the US. These would be in addition to the classic PKV cover, but would involve the PKV members acting as risk carriers.

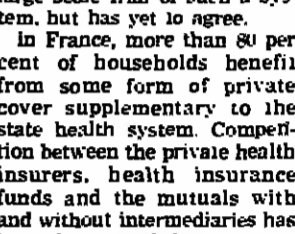
The German government has been approached to consider a large scale trial of such a system, but has yet to agree.

In France, more than 80 per cent of households benefit from some form of private cover supplementary to the state health system. Competition between the private health insurers, health insurance funds and the mutuals with and without intermediaries has been intense. Sales are currently dominated by the so-called Mutuelles 45, which receive fiscal benefits denied to their competitors. This has prompted the Federation Française des Sociétés d'Assurances, to file two complaints with the European Commission. These are intended to end the distortion of competition resulting from tax exemption and the favourable fiscal tax system of direct taxation and registration, benefiting the mutual institutes (governed by the Code de la Mutualité) and the provident institutes.

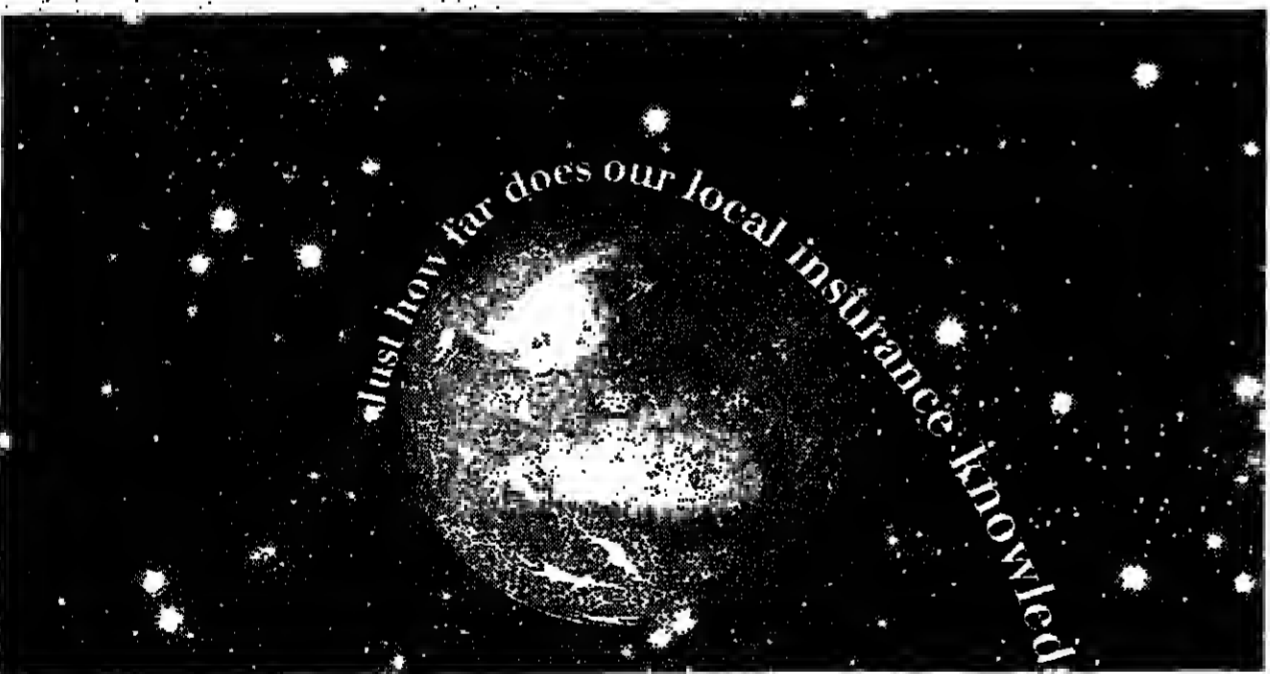
Currently health and supplementary accident contracts taken out with insurance companies by (non-agricultural) workers and the liberal professions are taxed at 7 per cent, whereas the mutual and provident institutes are tax exempt.

Vanessa Young, Financial Times World Insurance Report

Amsterdam: the market is undergoing considerable change



Amsterdam: the market is undergoing considerable change



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## ČESKÁ POJIŠŤOVNA a.s. and the Czech Insurance Market

### 1. The Insurance Market in the Czech Republic

The insurance market in the Czech Republic began to be formed in connection with the social, economic and structural changes after 1989. The legislative basis was constituted by the Law on Insurance no. 185/1991 as amended by the Law no. 320/1993. Only those companies which meet the conditions required by the law and obtain the authorisation from the state insurance supervisory body - the Ministry of Finance of the Czech Republic - may work and operate in insurance. At present there are 25 entities operating in insurance in the Czech Republic. The size of the insurance market in the Czech Republic is given by economic parameters. The insurance contracts concluded for both personal and commercial policies amount to a total of more than 30 bn CZK (Czech korunas - 1 GBP = 42 CZK), which represents about 2.5 per cent of GDP. The annual increase of premium fluctuates around 20 per cent. The biggest portion includes the insurance of commercial risks (about 34 per cent), followed by life insurance (about 25 per cent), MTPL insurance represents 12 per cent, household insurance about 3 per cent, insurance of buildings 1.5 per cent and motor vehicle hull slightly over 3 per cent. The number of long-term policies has reached about 12m. The insurance market has been developing very dynamically during the past few years (especially in non-life insurance related to the shaping and expansion of the private business sector activities). Gradually it is transforming itself into insurance activities more typical for a market economy. On 1 January 1994, the Czech Association of Insurers was founded; it groups twenty seven insurance companies operating in the Czech Republic. It is an association of insurers whose aim is to promote the interests of the clients, insurers and reinsurers.

### 2. Ceska Pojistovna a.s., (Joint-Stock Company) in the Insurance Market in the Czech Republic

Ceska pojistovna a.s., transformed in May 1992 from the state company to the joint-stock company, employs a staff of almost 9000 persons and manages a portfolio of 14 million policies. Around 2m claims are settled by Ceska pojistovna a.s. annually. At the end of 1995, the company's common stock amounted to 2.2 bn CZK.

Ceska pojistovna a.s. plays an important role in the insurance market in the Czech Republic due to:

- largest market share (70 per cent) and largest number of products offered;
- extensive network of organisations units: 25 branches for personal insurance, 7 industrial and commercial risk branches and 5 agricultural insurance branches. Ceska pojistovna a.s. has 180 agencies on the Czech Republic territory;
- ex lege exclusive provision of services in the sphere of mandatory liability insurance - for example the MTPL;
- ability to solve even very complex problems - Ceska pojistovna a.s. as the parent company, together with its subsidiaries, integrated into the financial group called CESKA POJISTOVNA GROUP, provides complex insurance and financial services in the Czech Republic;
- wide network of co-operation with the world's largest insurance and reinsurance companies.

### 3. Shareholders of Ceska pojistovna a.s.

As of the end of February 1996 the principal shareholders are:

National Property Fund 1)	17.70%	Komerční banka a.s.	7.69
Privat privatizacni fond a.s.	15.38	Individual shareholders	36.92
Ceskoslovenska obchodni banka a.s.	10.77	Investicni a postovni banka a.s.	7.69
Employees	3.85		

### 4. Ceska Pojistovna Group

Ceska pojistovna a.s. is gradually building up the financial group, CESKA POJISTOVNA GROUP, which provides integrated services to its clients. In addition to Ceska pojistovna a.s., the parent company, CESKA POJISTOVNA GROUP consists of the following subsidiaries:

CAPITAL INVESTMENT COMPANY a.s.	PRAGOBANKA a.s.
PENSION FUND of CP a.s.	ALPHA BROKER a.s.
CESKA POJISTOVNA ZDRAVI a.s.	CESKA POJISTOVNA-SLOVENSKO (Slovakia) a.s.

The common stock of the whole group exceeds 4 bn CZK. Ceska pojistovna a.s. is a shareholder in many companies and investment funds (besides the subsidiaries of CP GROUP). This makes its participation in the Czech capital market very significant. The shares of Ceska pojistovna a.s. itself belong to the best ones and for a long period they have been among those on the very top in the Czech stockmarket.

### 5. Main activities of Ceska pojistovna a.s. and its economic characteristics

Ceska pojistovna a.s. operates as an universal insurer and offers both life and non-life insurance. Life insurance includes a wide range of insurance products including life and endowment, assurance, and pension insurance. It also offers group life and pension insurance.

Non-life insurance includes for example different forms of property insurance for individuals and legal entities, liability insurance for individuals and legal entities, accident insurance, insurance of medical expenses for travels abroad, motor car insurance, MTPL as well as the insurance of industrial and entrepreneurial risks, agricultural insurance and international business risks insurance.

The reinsurance also constitutes an important part of the Ceska pojistovna a.s. activities. The number of policies, the composition of the premium income and that of the claims settled in 1995 are shown in the following table:

	non-life insurance	life insurance
Number of policies (thousands)	5 220	5 447
Premium revenues (CZK million)	16 950	6 538

Corporate Headquarters:  
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PHONE: + 422 2405 1111  
FAX: +422 2424 1072





VIII INSURANCE

Japan by Ralph Atkins

# Significant opportunities possible

The chances are that pressure for deregulation will prove irreversible

Even in Japan, general insurers are not exempt from pressure to break down barriers and liberalise markets. A new insurance law effective from April 1 in the world's second-biggest non-life insurance market could lead to marked changes in the buying patterns of commercial and personal consumers.

If the momentum were maintained, significant opportunities to expand in a market dominated overwhelmingly by local insurers could follow for foreigners willing to take on local companies wedded to regimented and restrictive practices.

For now, reform - prompted largely by international trade talks on opening Asian financial services markets - is taking place gradually. As yet, there are no plans to abandon the system by which premium rates and policy wordings are tightly controlled by dominant local insurance companies.

The US in particular is irked by plans to open up Japan's market for accident, sickness and nursing care insurance - where New York-based insurer America International Group has secured a substantial presence - before full liberalisation of the main life and non-life markets.

But the chances are that pressure for deregulation will prove irreversible. "April is going to be about small changes, but the driving forces behind that are very powerful," says Mr Ryo Tokuda, project manager at The Boston Consulting Group in Tokyo.

Most significant in the short term is likely to be a series of moves, permitted under the new insurance law, by non-life insurers into the life sector and vice versa. The biggest beneficiaries are likely to be the general insurers, able to tap a Japanese life market that offers the prospect of steady growth with relatively little investment in new skills or distribution systems. Life insurers may also seek opportunities to cross-sell non-life products.

Nobody expects a wave of

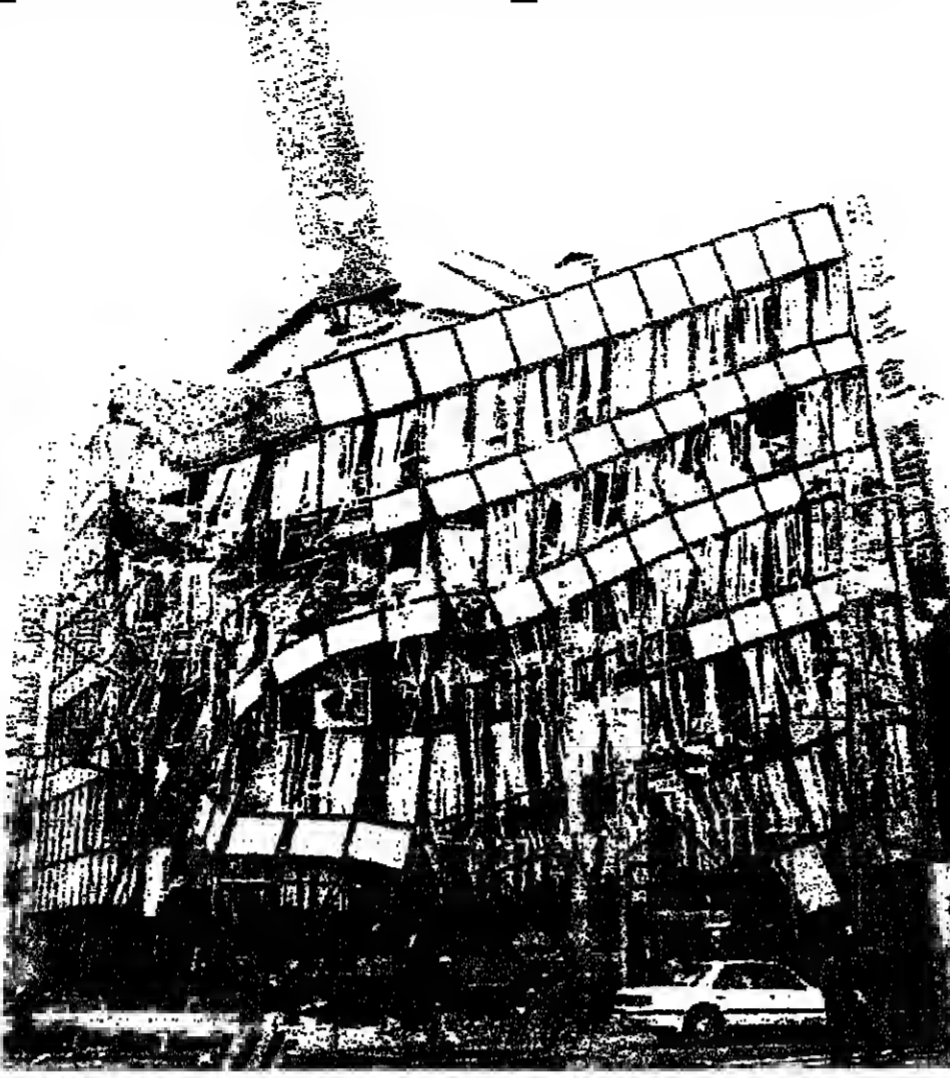
takeovers. The life insurers, though larger than their non-life counterparts, have been weakened financially by the pricking of Japan's asset bubble; the Japanese are not enamoured by mergers predicated on seeking economies of scale through massive job cuts. Instead, the effect of allowing life and non-life insurance markets to converge will be to increase the jostling between Japanese insurers intent on grabbing market share.

Adding to the competition will be the go-ahead - under the new insurance law - to the requirements of broking companies which, unlike existing insurance company agents, could act strictly on the insurance buyers' behalf, choosing and arranging cover that meets their needs.

Again, upheaval is likely to be modest in early stages. Large international brokers such as UK-based Sedgwick already operate in Japan as agents for the insurance companies, selling policies to foreign companies in Japan - large Japanese corporations rely largely on in-house agents to buy insurance. Until there is greater freedom to sell insurance policies with wordings and prices tailored to the requirements, there may be little incentive to convert, in legal form, into brokers.

But, crucially, the introduction of brokers may have an educational effect, alerting insurance buyers to the cost-saving opportunities offered by risk management techniques and insurance products developed around the world. That should eventually mean broking activity, as elsewhere in the world, as independent financial advisers.

Consumer awareness will be enhanced further by the relaxation of some restrictions on premium rate pricing. Japanese regulations previously allowed freedom in marine, aviation and some professional liability sectors, providing cover against the risks which businesses face. But from April there will be more scope for cutting the expense component - as opposed to the risk premium - of fire policies and those covering the largest commercial risks. That will give a boost to the more cost-efficient insurance providers.



Japanese insurers continued to make profits even after disasters as huge as the Kobe earthquake

Breaking down a rigid pricing structure will take more than April's reforms, however. Japanese insurers benefit from an institutionalised system of common underwriting pricing manuals which allow even the smallest insurer to make profits and, with little product differentiation permissible, virtually guarantee economies of scale for the largest.

Japanese insurers continued to earn profits even after disasters as huge as the Great Hanshin-Awaji earthquake around Kobe in January 1995, which killed 5,500, injured 41,500 and destroyed or damaged nearly 400,000 houses. This was because earthquake coverage is expensively priced and insurers are careful to ensure plentiful reinsurance (protection against big losses). Total insurance claims paid for Kobe were only between ¥120bn and ¥130bn.

In other sectors, particularly personal lines such as motor insurance, insurers say that consumers are best served by a fixed price system which ensures universal coverage. "We don't want a situation as happened in the US where you can't buy suitable insurance," says Mr Kunihiko Fujii of Tokio Marine and Fire's corporate management department.

"Full liberalisation of insurance rates may not be beneficial to personal policyholders because they don't have enough information to compare policies. They can't understand which is better or which is worse."

In the commercial insurance sector, buying decisions often reflect non-price factors - such as the mutual shareholdings and other links between Japanese insurers and their client companies throughout the country's economy.

Together with the dominance of the regulatory system by the insurance market's largest participants, such forces have combined to ensure foreign insurers account for only about 4 per cent of the Japanese non-life market.

If the pressures which are forcing deregulation across Japan's economy continue, the potential for outside insurance companies could be considerable. In personal lines, for example, the benefits of computer-aided underwriting skills have not been tested. Similarly, telephone sales techniques, such as pioneered in the UK by the Royal Bank of Scotland's Direct Line, have not been used and could offer further expense savings for personal lines.

Such potential opportunities to exploit the underlying weaknesses of native Japanese insurance companies explain why Lloyd's of London has been so keen to establish a Japan presence, winning important concessions in the new insurance law which recognises the 300-year-old London insurance market's unique structure. Lloyd's traditional expertise has been in innovative underwriting. Its underwriters also seek geographical spread and, by say, insuring the Japanese against earthquake damage, could help balance exposure to natural disasters in the US.

Behind the scenes among Japanese insurers there are mutterings about possible threats to Lloyd's existing role as a reinsurer of local companies if it begins to underwrite direct, or conventional, insurance business as well. Japanese insurers would not want to be buying reinsurance from a company that was challenging them in their main markets, the argument goes. The danger seems low, however, given the relatively slow pace at which the Japanese insurance market may evolve. For Lloyd's, the risk of short term pain is worth taking given the longer term prospects.

The US: by Richard Waters in New York

# Difficult phase ahead

Catastrophe exposures have prompted a re-think in the boardrooms of some of the biggest companies in the industry

The restructuring of the US property-casualty insurance industry is about to enter a new phase.

Battered by hurricane and earthquake losses and weakened by festering environmental and asbestos exposures, some of the country's biggest insurers have had to take radical steps to put their finances back onto a sound footing. Now comes the hard part: finding a way to achieve stable and profitable growth again.

The overhaul which has been underway in the US insurance industry for the past two years has taken a number of different forms. Each, though, has been motivated by the same objectives: to recognise past liabilities, rebuild reserves and cut risks to levels that companies feel more comfortable with.

This effort has been prompted in part by the country's two biggest insured natural catastrophes. Hurricane Andrew, the 1992 storm which cost insurers \$16bn, was followed two years later by the Northridge earthquake, which caused insured losses of \$12bn.

Catastrophe exposures on such a large scale have prompted a re-think in the boardrooms of some of the biggest companies in the industry. Among them has been Sears, the retailer, which chose to spin off its Allstate insurance subsidiary as a separate company in 1994; and Prudential Insurance of America, which sold its reinsurance unit in 1995 and is seeking ways to cut the risks in its remaining property-casualty business.

Over the past year, meanwhile, a different sort of insurance risk has come to assume centre-stage: exposure to environmental and asbestos clean-up costs, much of it under old liability policies dating back decades.

The presence of these exposures has been known for some time, but like the banks which put off recognising their losses on Third World lending in the 1980s, US insurance companies have until recently preferred not to face up to the full enormity of their difficulties.

That changed last year as a handful of well-capitalised companies realised the competitive advantage of boosting their reserves. By doing so, they set sent a message about their relative strength - and implicitly put pressure on weaker companies that could not follow suit.

In this rush to build reserves, some weaker companies have fallen by the wayside. Continental was sold to CNA Financials, while Home Holdings' property-casualty business was assumed by Zurich Insurance.

Also, a number of industrial groups, which had bought insurance companies during the 1980s, decided the time had come to beat a retreat. Besides Sears, which spun off Allstate, these have included ITT, a conglomerate which earlier this year broke itself into three separate companies, leaving its Hartford insurance subsidiary as a free-standing company; and Xerox, which agreed to sell its Talegen insurance operations to a group of investors led by Kohlberg Kravis Roberts, the buy-out firm. Aetna also quit the property-casualty business, selling its operations in this area to Travelers for \$4bn.

Taken together, these moves have done much to calm fears about the potentially crippling effects of environmental liabilities on the insurance industry, by bringing in new capital and shifting risks to companies that are better able to assume them.

At the same time, some estimates of how much it will take insurers to settle environmental and asbestos claims have been sharply scaled back. AM Best, the US insurance ratings company, recently cut its estimates, putting the likely cost in present dollars at \$57bn. That compares with an estimate of \$260bn two years ago.

The availability of better information and more experi-

ence from early settlements accounted for the reduction, Best said. Its estimate is now far closer to that of the rating agency Standard & Poor's, which puts the cost at \$60bn.

The recent spate of activity seems largely to have completed a first phase of consolidation in the US insurance industry. The question that remains is how quickly a second phase will follow.

"The obvious [takeover] candidates have all gone," says Mr Alan Levin, a managing director at S&P. He adds, though, that "the economic justifications are still there" for mergers among insurers.

The problems that face US insurers closely parallel those of its banks, which last year became embroiled in a wave of mergers and takeovers of their own. The biggest of these is slow revenue growth.

"There are too many companies in the business - way too many still," says Mr Sandy Weill, chairman of Travelers. Pointing to other parts of the US financial services industry, he adds: "There has been a lot of consolidation among banks and broker-dealers. In the insurance industry, it's just starting."

Mr Weill is among those who draws a direct parallel between the banking and insurance businesses. By merging its property-casualty operations with those of Aetna, he says, Travelers aims to cut combined costs by 15 per cent - almost exactly the savings projected from the merger of Chase Manhattan and Chemical Banking, which was announced last year.

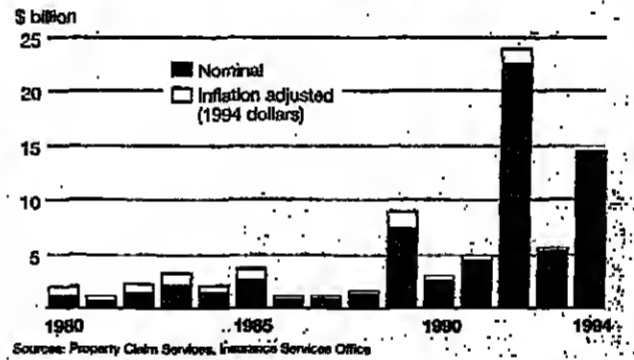
Alongside Mr Weill, a small group of active acquirers has emerged, including GE Capital and CNA Financials. However, as with the banking industry, it is one thing to make the case for mergers, another to predict the pace at which consolidation will proceed.

Many US insurers enjoyed strong earnings in 1995 and have seen their share prices surge to levels which have left few bargains for the acquirers. That is likely to reduce the pressure in the industry's boardrooms to take early action to deal with more deep-seated problems.

While costs - which eat up 25 per cent of revenues at the average insurer - have become the main focus, less attention has been paid to the more intractable problem of claims expenses. The industry's loss ratio, which jumped as high as 88 per cent in 1992 with Hurricane Andrew, continues to hover at more than 80 per cent.

"The real big, big opportunity is in the claims area," says Mr Weill. "If the courts seem more sane, which seems to be a direction that we're moving in in this country, that could be very good for the business long term," he says.

Annual insured US catastrophe losses



Source: Property Claims Service, Insurance Services Office

Emerging markets: by Trevor Petch

# Doors open for western groups

The easing of restrictions on entry have opened up vast opportunities in under-insured regions such as China, India and Russia

The next five years are likely to offer the insurance industry the greatest opportunity for expansion it is ever likely to receive. Three of the largest markets on the globe in population terms - China, India and Russia - are in the process of opening up to the outside world.

Each of the three will present unique challenges to international insurers trying to take advantage of their long-term growth potential.

Following the political and economic collapse of the Soviet Union, there has been rapid growth in the number of new, private sector insurers. In Russia alone there are more than 2,500, most of them short of capital and expertise. But while the number of companies has mushroomed, insurance spending remains lower in real terms than it was under the monopoly system. One mainstay, compulsory agricultural insurance, was almost immediately abolished. The other, simple low-value life insurance which provided a means to save without providing an investment return, was destroyed by hyperinflation.

New products have arisen to take their place. Demand for commercial property cover is growing with privatisation and foreign investment, and will be further stimulated by tax changes this year which make property insurance a deductible business expense. Previ-

ously, property insurance had to be purchased out of taxed income.

Life insurance, too, appears to have recovered, but most life insurance in Russia is taken out by enterprises to cover their labour force for periods as short as a few days as a means of avoiding salary tax. The authorities now intend to curb this practice by taxing life insurance at the same rate.

Political uncertainty and such "wild East" insurance products have discouraged all but the boldest western insurers from investing. German market leader Allianz has a small subsidiary in Moscow, and its medium-sized competitor, AIG, has two joint ventures in Kalingrad and St Petersburg. The only big foreign investment so far, however, has been by the leading US international insurer AIG.

In life insurance, a bold joint venture involving Scottish Provident, Employers Re of the US, the Independent Trade Union of Russian Employees and European Bank for Reconstruction Development and venture capital was licensed by the Russian authorities earlier this year.

Investors have also been discouraged by legislation restricting foreign investment in an insurance company to 49 per cent, itself prompted by Russian fears that its infant industry will be swamped by western capital.

China is a much bigger prize, and one where many insurers are prepared to make substantial commitments to secure a foundation to build on in the future.

First into the market was AIG, which had its origin in American Asiatic Underwriters, founded in Shanghai in 1919. After years of assiduous endeavour, in 1992 it received the first operating licence

granted to a foreign insurer since the Chinese Revolution, and was followed in 1994 by Tokyo Marine and Fire.

Despite the fact that the operations of both were restricted to the Shanghai area, AIG has been so successful in sales of life policies that it is widely predicted that in future, foreign life insurers will be restricted to joint ventures with Chinese partners. Canada's Manulife received a joint venture licence in December.

Shanghai is also the most active centre for the new Chinese joint stock insurers, which have been permitted to compete with the former monopoly PICC since 1993. Six insurers operate in the city, which plans to encourage more. However, official newspapers were last year already describing the market as "chaotic" due to inconsistent regulation and unscrupulous sales practices.

A new insurance law took effect on October 1 and in the same month Guangzhou was opened to foreign insurance operations. All coastal cities will follow by the end of the century, according to current plans.

By the end of October, 77 insurers had set up 119 representative offices in China, with Beijing and Shenzhen also popular locations. Others hope to develop operations based on groundwork done in Hong Kong, where leading French insurer AXA, for example, sees great potential for the local subsidiary of the recently acquired National Mutual of Australia. The obstacles are, nonetheless, formidable. The initial conditions for a joint venture licence included assets of \$5bn and previous maintenance of a representative office for a period of three years. Candidates are also expected to display positive commitment

in other ways. Manulife, for example, has like many others, funded training programmes, and also contributed to a "help the poor" scheme.

For brokers, the obstacles are greater still. Only Sedgwick currently has a full licence. Officials have indicated that approval for these will be even slower than for insurers. "Brokers are difficult to manage because they have more independence," one commented recently.

In India, too, insurance is politically sensitive. At present, the market is the monopoly of the state-owned Life Insurance Corporation of India (LIC) and the General Insurance Corporation of India (GIC) which reinsures the operations of four subsidiaries in Bombay, Calcutta, Delhi and Madras.

In April 1993, the government appointed a committee

headed by former Reserve Bank of India governor, R. N. Mahotra, to report on possible demonopolisation. In January 1994, it recommended that foreign insurers be permitted to establish joint ventures, provided that their shareholding was between 25 per cent and 40 per cent, and worth at least \$10m.

Criticising the excessive control exercised by the GIC, the committee also proposed separating its subsidiaries into truly independent, competing companies, and suggested a reduction of the state's shareholding in the GIC and LIC to 50 per cent, accompanied by a big increase in capital.

Since then, however, progress has been slow, not least because of political controversy, including recent strikes by LIC employees. Although an interim insurance regulation

authority, a forerunner to the full committee recommended by Mahotra, was eventually set up in January this year, further developments have been postponed at least until after this year's general election.

Political uncertainty, high investment requirements and other probable restrictions - such as a prescribed amount of business to be done in rural areas, and limits on the shareholding of Indian sponsors - have not, however, deterred the signature of on-line agreements with potential partners, usually leading industrial conglomerates.

UK insurers have been particularly active, given their experience of operating in India before nationalisation in 1971. At that time, Commercial Union, General Accident, Royal and Sun Alliance between them sold more than a quarter of all non-life policies in India.

Trevor Petch is editor of the Financial Times newsletters World Insurance Report and European Insurance Report

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**Risk management: the buyer's perspective**

# Businesses establish their own captives

Industry is setting up its own arrangements for insuring against the risks it faces. Peter Lerwill explains why

An important change has taken place in the insurance of industrial risks over recent years. There has been an increase in the number of professional people evaluating their own company's risks and for this reason many businesses have started forming their own captive insurance companies where it is perceived there are risks that need to be transferred.

Insurance was originally used for the transfer of risk by industry, and insurers looked for a widely spread portfolio on the basis that the premiums of the many would pay (hopefully) for the losses of the few. Behind the growth in captives lies, at least in part, the perception, that those wishing to transfer the risk (industry) can in some cases enjoy a stronger financial standing than those to whom the risk is being transferred (insurers). The savings from the use of a captive are also a factor.

The greater concentrations of value which now exist in more confined spaces have also undermined to some extent the principle lying behind insurance that the losses of the few should be covered by the premiums of the many. At the same time insurance companies appear to many of their customers to be applying much more rigidly than hitherto the fine print of policy wordings in relation to large losses. A loss of £250,000 does not really attract any attention, but a loss of £50m from the same cause is a totally different situation. Many companies with a strong balance sheet, therefore, are asking why not carry the risk themselves, as has been successfully done by several large companies.

Luck has played a strong part in the successful self-funding of risks in many cases, however. If a big loss had occurred, immediately after arranging this self-insurance, then totally different stories would have been heard. In the world of aviation insurance, which is probably



Lerwill: industry is increasingly being forced to manage its own risks because of the withdrawal of effective risk management tools

the most transparent of all the insurance markets, a leading airline decided in December last year to accept a large deductible under their policy at renewal. Unfortunately, before the month was out, they had suffered an important loss.

Insurance buyers have had to live, too, with the market's changed approach to terrorist cover and employers' liability exposure: two important changes that initially did not seem to be approached from a "customer care" or "need to know" viewpoint.

We are now hearing ominous rumbles, too, about pollution cover and its future availability. An initial remark by a reinsurer that might have been no more than kite-flying has now gathered such momentum that the industry may have shot itself in the foot by voicing such loud concern. The insurers' dream of being able to restrict cover may seem to have been fulfilled without any further action on their part.

Industry has, quite rightly, raised the subject, wishing to be involved in discussions with all parties at an early stage. A lesson has been learnt from bitter experience in the past when industry was only consulted after certain issues were already resolved.

The Association of Insurance and Risk Managers (AIRMI), spokesman for the industry on risk management issues, has, over the past few years, established excellent relationships with all the appropriate bodies in the insurance world and is

continually being asked for the industry's views on a wide range of issues. As a result it seems unlikely it will be wrong-footed again.

A number of insurance brokers have also recently decided that because their earnings from brokerage commissions are diminishing - owing to reduced market rates - they must develop their own risk management expertise and sell this service to their clients, apart from negotiating fees with their clients as a basis for remuneration.

Yet the broking community still has much to learn. Two leading brokers have recently carried out a client survey asking how they are perceived in this respect, only to find to their surprise, that industry did not rate their capability very highly.

Industry is being forced, therefore, to manage its own risks more and more because of the withdrawal of effective and efficient risk management tools. The creativity outside our own organisations to help us manage our individual, complex industries, and the stability we so long for, is either not there or is still in embryo form.

There is a vast potential market searching for expertise in this field, but the insurance brokers themselves are still learning.

Peter Lerwill is general manager, risk management for British Airways and a former chairman of the Association of Insurance and Risk Managers.

**Risk management: pollution by Stuart Hyslop**

# Environmental hazards grow

Insurers are warning that high costs and retrospective claims may force the removal of pollution cover from general policies

As many as 100,000 sites in England, covering 200,000 hectares of land, may be contaminated as a result of industrial activity. And just who pays the millions it would cost to clean them up is a matter which is now taxing companies and their insurers, many of whom are questioning their ability to continue to provide cover.

Under the new UK Environment Act, innocent owners or occupiers of these sites are responsible for the costs of cleaning them up if the original polluters cannot be traced. Even when past polluters are found, the innocent occupier can still be liable, if those responsible are bankrupt.

Insurers and risk managers are following with some alarm a case in the US, where the Environmental Protection Agency is claiming the \$132m (£86m) cost of cleaning up a polluted site in the state of Louisiana 100 years after it was contaminated. It has started proceedings against Fleming American Investment Trust, which was formerly known as the Alabama, New Orleans and Pacific Railways Company, and operated a creosote factory for treating railway sleepers between 1882 and 1902.

European insurance companies, concerned that they will be used as a means of funding the clean-up of historic pollution, have already suggested that pollution cover could be removed from general policies, just as terrorism cover was removed in the wake of IRA bombings in London in the early 1990s.

The precise consequences of the 1995 Environment Act will not be known until some case law has been established, and the Department of the Environment is still working on a series of guidelines which it hopes to publish in July. These guidelines will include notes on the definition and identification of contaminated land and on the designation of "special sites" - contaminated land and closed landfill sites.

Another note deals with those who caused, or knowingly permitted, contamination on or under land, and who are liable for what is done to remedy that contamination. But the introduction of the Environment Act, and the establishment of the new Environment Agency, has already caused many big UK companies to re-examine their risk management strategies. A survey last year among some of the country's leading companies found that environmental problems were regarded as the sixth-biggest risk facing businesses, behind such other hazards as fire and lost production. The Environment Act is likely to change that view, as risk managers become involved at a very early stage in the acquisition of land. No one will want to buy a site which they can neither build on nor dispose of until they have paid a hefty sum for the land to be decontaminated - especially when their insurance company will not cover them against the risk of that happening. "Insurers and re-insurers



A polluted drainage canal near Antwerp: European insurance companies, concerned that they will be used as a means of funding the clean-up of historic pollution, have already suggested that pollution cover could be removed from general policies just as terrorism cover was removed in the wake of IRA bombings in London in the early 1990s

have made no secret of the fact that they are getting very anxious about potential environmental claims and the movement towards tough environmental legislation at both national and European level," says Mr David Bull, chairman of the Association of Insurance and Risk Managers (AIRMI).

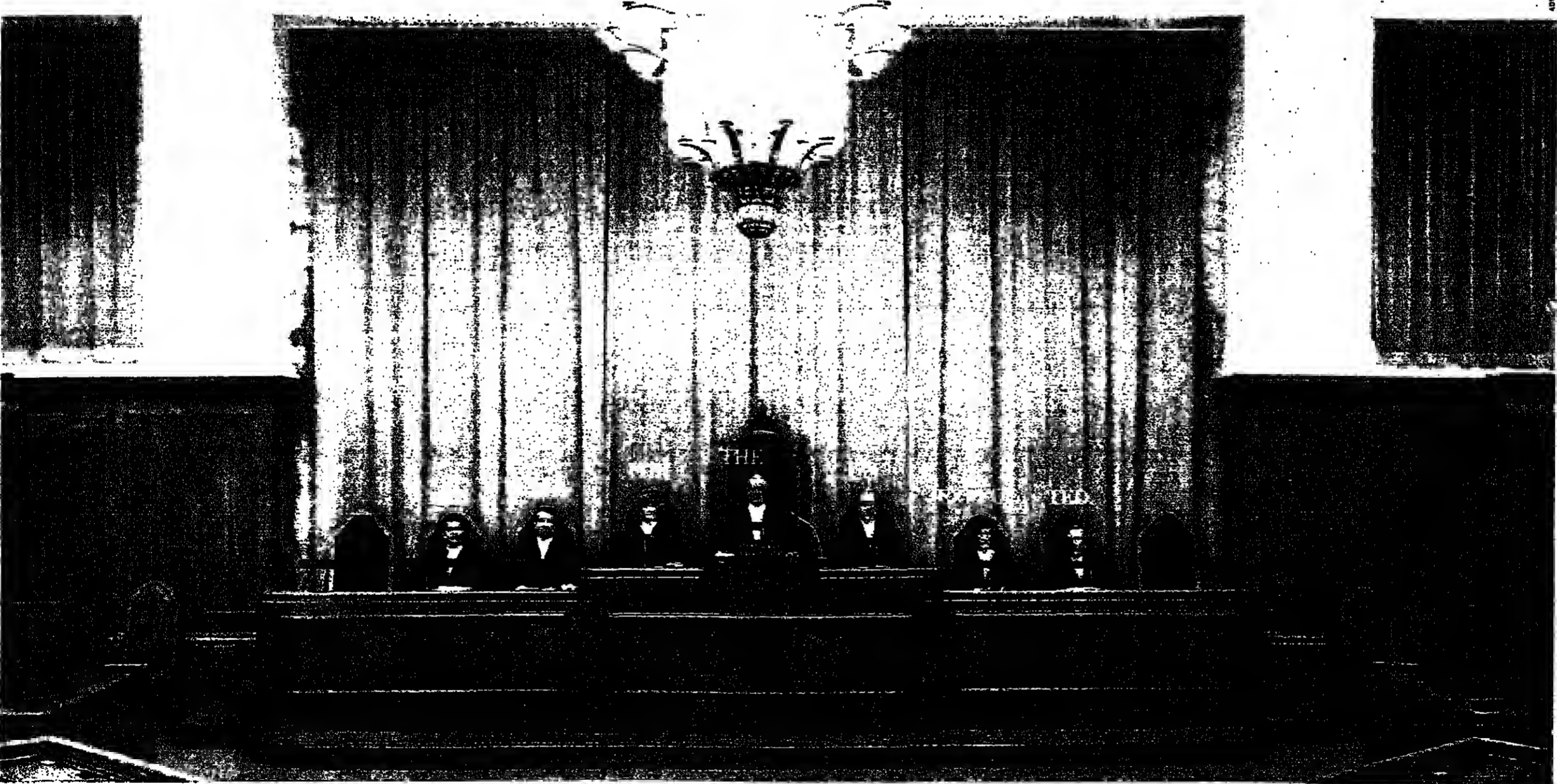
Insurance brokers Willis Corroon have suggested that the most likely move is an absolute pollution exclusion to liability policies within the next year, and possibly from January 1 1997, resulting in companies facing substantially higher insurance bills to obtain cover. The Association of British Insurers has said that "if there is any attempt to make liability retrospective, insurance companies will have to look very carefully at the cover they are providing." The ABI added, ominously, that the UK has a long industrial history which has left it with "an unwanted legacy of contaminated land".

AIRMI says the clean-up of sites has become a particularly contentious issue in the US, with the imposition of retrospective and joint and several liability. AIRMI is sufficiently concerned about the possibility of the UK Environment Agency attempting to follow suit to have identified increased awareness of the threat posed by pollution as its main goal for 1996. It believes that if insurers attempt to limit their pollution liabilities through a full exclusion, risk managers will be forced to the currently limited and very expensive specialist environmental liability market. AIRMI is concerned that there is no cut-off date for retroactive liability, and that companies who acted to the accepted standards of their time will still be made liable for cleaning up the pollution they caused. "The need to clean up pollution must be balanced with the requirement that those responsible pay for it," said Mr Bull. "Risk managers are generally very environmentally risk aware and are constantly taking positive steps to

minimise the threat of pollution. But while the 'polluter pays' principle has always existed, it has never been so rigorously applied as is indicated now. Neither does liability cease with the transfer of ownership of the property."

In spite of the DOE's pronouncements that it would not be introduced into the UK, many of the legal and related professions do see the new legislation as the introduction for the first time of retroactive and joint and several liability. "No one yet knows how the Environment Agency will implement its new powers and whether there will be a significant departure from current custom and practice. We are concerned that the US experience shows that legal requirements to clean up pollution create a welter of litigation between responsible parties - including polluters and their insurers."

"The only winners are the lawyers." The author is the proprietor of Stuart Hyslop Editorial Services.



Once upon a time, a company had a clear-cut purpose and a simple set of responsibilities: produce, prosper, pay taxes. Over the years, however, corporate life has been getting tougher. A growing number of interests have to be reconciled. How can you satisfy consumers, shareholders, employees, the environment, the community and the state all at the same time? With the threats of liability law suits multiplying, traditional insurance thinking is not the answer. Instead, reliable methods of risk analysis and risk engineering must be systematically applied. A leading global insurer is more likely to have the professionalism and strength to provide them to the same high standard worldwide. And the experience to show you results.



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# POLAND

## The fight for the 'feel-good' factor

The new president must continue economic reforms if he is to convince Poles that the bad times are over, say Anthony Robinson and Christopher Bobinski

Poland is under new management. At the presidential elections in December Poles voted by a small majority to usher Mr Alexander Kwasniewski, a former communist, into the presidential palace.

Disillusioned by the feuding that split the fragile unity of the former Solidarity alliance, embarrassed by the gaffes and bluster of the incumbent, Mr Lech Walesa, and resentful of the conspiratorial cabal surrounding him, Poles drew a line under the past and looked for new leadership from one of Poland's most adept political operators.

One of the 43-year-old Mr Kwasniewski's first acts as president was to visit western capitals. He started with Paris and Bonn, followed by a trip to EU and Nato headquarters in Brussels. Only three months later did he make an eastward sortie, visiting neighbouring Lithuania. He is due to go to Moscow next month.

Western nervousness about the outcome of the Russian presidential elections in June highlights the importance of Poland as a politically stable and economically vibrant country of 38.5m people, anxious to play a constructive role in building 21st century Europe.

In an interview during his visit to Brussels the new president emphasised his enthusiasm for EU membership and the US-led nature of the Nato alliance. He also declared himself "very much in favour of the entry of the Baltic states

into European structures". But Mr Kwasniewski accompanies support for developments that would bring Nato up to the Russian border with appeals for sensitivity to Russian fears.

Enlarging Nato to take in former Warsaw Pact states such as Poland would mark a qualitative change in the North Atlantic alliance, he says. But Moscow still has to be persuaded that an enlarged Nato would not be just a bigger and closer version of the old anti-Soviet alliance still aimed against Russia.

Yet the very idea of Mr Kwasniewski as the spokesman for Poland's vision of a future united Europe was so distasteful to the old guard in the presidential palace that their last days in office were spent concocting a "poison pill" designed to discredit the incoming president.

The outcome was a personal attack on the then prime minister, Mr Jozef Oleksy, who was accused of passing sensitive information to a senior KGB officer. Mr Oleksy denied the charges but in January was obliged to resign in order to defend himself.

A former senior minister, who is not a visceral anti-communist, suggests that the communist past will continue to dog Mr Kwasniewski and the current generation of politicians for decades. "The question is not whether Mr Kwasniewski has the ambition to become a real leader, but whether he has moral strength, the courage to avoid cronyism and the ability to rise above his communist party past," he says.

Other serious political observers worry whether the fragmented non-communist opposition parties will be able to overcome their personal rivalries and put together the sort of effective opposition required to preserve a genuine multi-party system. The danger is that without an organised opposition capable of forming an alternative govern-

ment Poland could slip back by default into a form of regime politics without real alternation of power.

Mr Walesa showed himself to be a tough fighter and an inspired destroyer. But he has few of the skills required to build up a modern, democratic party able to survive the long slog of opposition and capable of working out a consistent political programme.

Instead, Mr Leszek Balcerowicz, the former finance minister and father of economic reform, has taken on the task of trying to turn the Freedom Union, the successor to Solidarity, into a free-enterprise, conservative party.

Mr Balcerowicz, not a natural politician, is facing an uphill struggle trying to weld together a party that contains many former ministers and large egos, and harbours strong tensions between the



The new President Kwasniewski has a vision of a united Europe



The old...Walesa: the destruction of Solidarity was his downfall

Christian democratic wing of the party and the free market, liberal wing. The latter was absorbed when the Congress of Liberal Democrats (KLD) merged into the new party after the defeat of the former Solidarity parties in the September 1993 general elections.

Throughout former communist Europe, the past six years

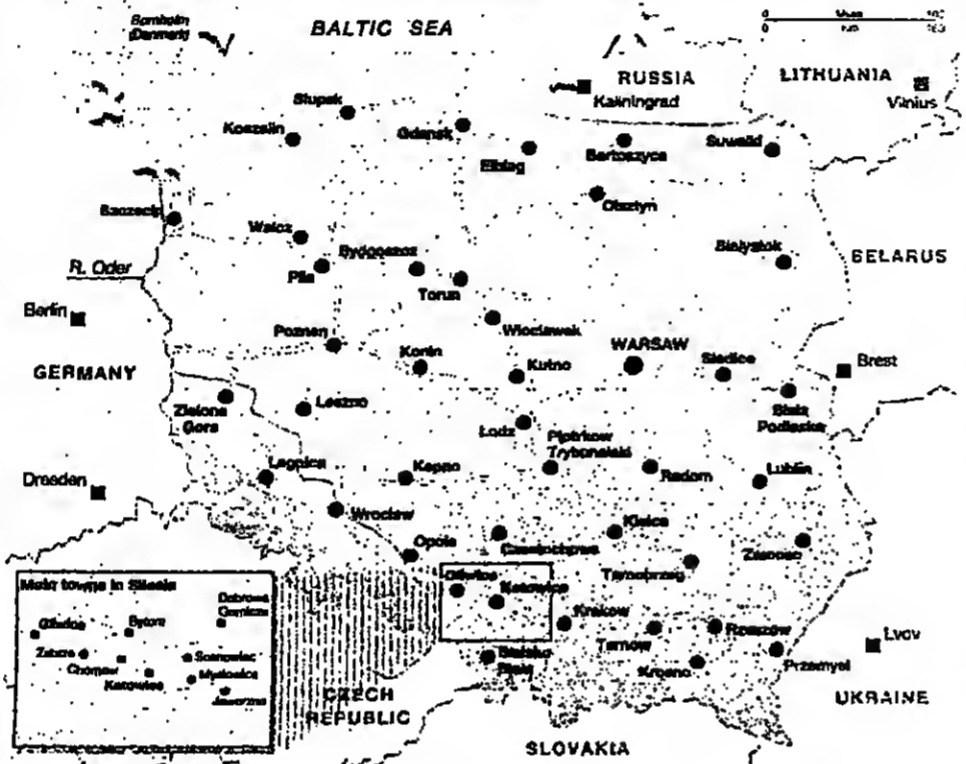
have shown how difficult it is for political amateurs to compete effectively against experienced former communist politicians.

The younger generation of leaders are relatively unainted by the Stalinist past and their conversion to social democracy often reflects personal experience of the frustrating medi-

ocracy and stultifying nature of the unaltered Soviet system. In Poland, left wing forces regrouped under the banner of the Democratic Left Alliance (SLD) and the leadership of pragmatic careerists and modernisers such as President Kwasniewski and Mr Wlodzimir Cimoszewicz, the current prime minister.

With its fiercely independent national traditions and powerful Catholic church, Poland was, however, in some ways better placed than most to cope with the adjustment to "normality" after the distortions and trauma of the totalitarian years. But it, too, faces a difficult and time-consuming period of institution building and administrative reform.

The final judgment on the left wing parties now in power will hinge on their ability to continue the task of building up an independent judiciary, creating a non-political, professional civil service, including the security services, reforming the social security system and in general creating a modern, democratic state.



### IN THIS SURVEY

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2 POLAND

Economy: by Anthony Robinson

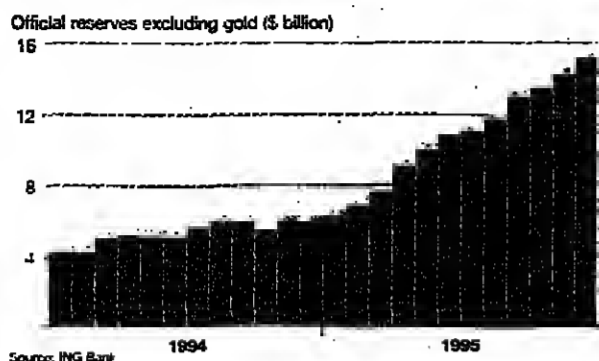
Stability rests on spending curbs

Tough fiscal policies are needed to complete the transformation begun this decade

The Polish economy entered the 1990s as the weakest in central Europe; it is heading for the new millennium with a good chance of emerging as the strongest.

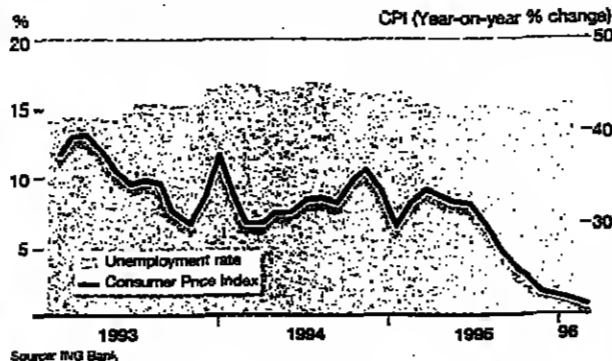
This year's expected growth, at around 5.5 per cent of GDP, will probably be lower than that in 1995, when booming foreign trade and investment produced 7 per cent growth, a \$9bn increase in foreign reserves and a further reduction in annualised inflation to just under 23 per cent.

Foreign exchange reserves



Source: ING Bank

Inflation and unemployment



Source: ING Bank

cal policies followed by subsequent finance ministers. But some of the groundwork was also laid during the bleak 1980s when the managers of Polish state-owned enterprises were given wide-ranging managerial powers.

economic have matched the productivity and efficiency gains of the private or privatised sectors. The Szczecin shipyards and the Polska Miedz copper mining and refining complex, for example, are incomparably better managed and more efficient than they were six years ago.

ment in the run-up to sales. Privatised former state trading companies, such as Rolimpex, the farm trading company, Elektrim, the electrical equipment and power station supplier, Stalexport, the metals trader, and Mostostal Zabrze have also become strong performers on the stock exchange, reflecting their role as catalysts in the transformation of Poland's industry.

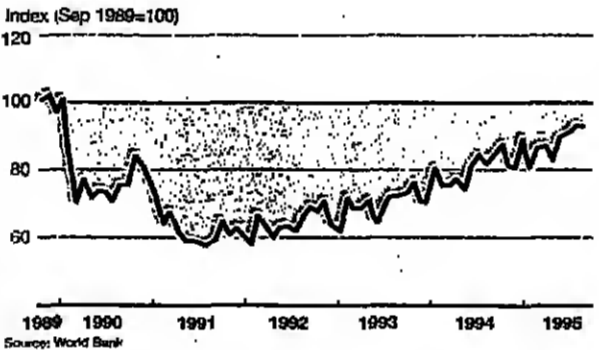
and with it the temptation for politicians to listee to calls for the protection of local capital rather than press ahead with open markets and transparent rules for all. Rising investment, specially

Foreign direct investment - approaching \$7bn and rising fast - is starting to play an important role in modernising the country

Foreign direct investment, now approaching \$7bn and rising fast, is starting to play an increasingly important role in modernising the economy and integrating Poland with global markets. But this means that competition is increasing -

from Poland's high-cost German-speaking and Scandinavian neighbours, has been accompanied by a small avalanche of German and other foreign banks eager to service local companies seeking a low cost production base and a

Industrial output



Source: World Bank

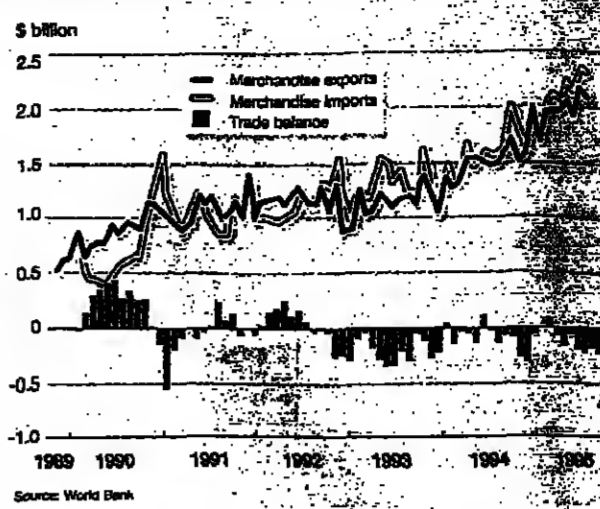
This year's sell-off targets

The privatisation ministry hopes to raise \$1bn this year. Its main sell-off targets are: ● Polska Miedz - Europe's biggest copper producer and refiner. The ministry plans to sell up to 20 per cent of its shares on the Warsaw Stock Exchange and offer a further 10 to 15 per cent to foreigners through a capital increase.

● Chemical industry: fertiliser plants such as Pulawy near Lublin and Azoty near Tarnobrzeg. The Kedzierzyn Kozlechemical works and the Janikowsoda and Soda Matwy soda factories. ● Kruszwica, an edible oil and fats producer. ● Impexmetal, a steel and non-ferrous metals trader. ● Polar, the Wroclaw white goods producer. ● The Iskra ball bearings works in Kielec. ● Dromex, a road builder currently bidding for the highway construction programme. ● The Orbis hotel chain. ● DT Centrum, the state-owned retailing chain comprising 31 city centre stores.

(1995 net profit of 5m zlotys on sales of 400m zlotys.) ● PHS, the state-owned wholesale chain. ● Ruch, the former monopoly newspaper distributor. (17,000 kiosks, 1994 net profit of 13.3m zlotys on sales of 215m zlotys.) In addition the finance ministry will be selling: ● Up to 75 per cent of the equity of Powstachay Bank Kredytowy (PBK), Warsaw. ● A 7.26 per cent stake in Bank Slaski and a 25 per cent stake in Wielkopolski Bank Kredytowy (WKB). The transport ministry is looking for a strategic investor in Lot, the national airline, and plans to sell a minority stake.

Foreign trade



Source: World Bank

KEY FACTS

Table with 2 columns: 1994 and 1995. Rows include Area, Population, Head of state, Currency, Average exchange rate, Total GDP, Real GDP growth, Annual average growth inc, Consumer prices, Industrial output, Agricultural output, Gross fixed investment, Unemployment, Reserves minus gold, Money growth, Stock market index, PSBR, External debt, Current account balance, Merchandise exports, Merchandise imports, Trade balance, Main trading partners.

Estimate 1996 to date. Estimate unless otherwise stated. % of labour force. End point: share of world trade. Source: Economist Intelligence Unit, Oxford.

exporters such as the shipbuilders, and reducing the competitive advantage of relatively low labour costs. Work should begin this year on building the new motorways that are planned to criss-cross the country by the year 2010; the main east-west railway between Berlin, Warsaw

and Moscow is being modernised; some 700kms of trunk gas pipeline is being built to transport Siberian gas to Germany. More than 50 per cent of generating capacity is obsolete and needs replacement while telecommunications, refineries and ports need expensive modernisation. Private house-building is also gearing up for an upswing.

The finance minister: by Anthony Robinson

Tough challenge for radical

Grzegorz Kolodko has to convince the left of the virtue of pension reform and pit closures



Kolodko: wants lower taxation and higher levels of savings

Poland has a new five-year plan, although Mr Grzegorz Kolodko, the finance minister who drew up the country's so-called "Project 2000" as a guideline for economic policy until the new millennium, sounds more like the former US presidential candidate Steve Forbes than any old-style socialist planner. He does not advocate a 17 per cent flat rate income tax like Mr Forbes. But, with the backing of the president, he is trying to persuade sceptics in the cabinet and outside that a virtuous cycle of sustainable growth and lower inflation can only be achieved by lower taxation, less government spending as a proportion of GDP and higher savings and investment.

With general elections due in the summer of 1997, the next few months will be crucial for the success of his proposed sustainable growth strategy. The pressure from unreconstructed left wingers to raise spending is growing and cutting taxes and spending will not be possible unless the government grasps two political nettles. The first is reform of the social security system to put pensions on a self-financing basis. The other is the closure of 15 loss-making pits and the phasing out of loss-making coal exports.

Poland's 9m-plus pensioners make up 25 per cent of its population. Their pensions are linked to average incomes and past attempts to freeze payments or link pensions to prices rather than wages have been challenged in the courts and have left a legacy of outstanding payment commitments of around \$2.5bn.

The aim of pension reform plans now before parliament is to equalise pensionable age at 65 for men and women, link annual adjustments to prices not wages and shift new pension commitments to a fully funded basis. The proposed new funds would be built up partly by contributions and partly by income from still to be privatised state assets. Without such reforms, which are designed to put a

cap on government spending, popularise privatisation and introduce closer links between future benefits and

contributions. Project 2000's goal of non-inflationary growth will remain a pipedream.

Meanwhile, real incomes are rising fast, due partly to revaluation of the zloty in real terms. Ensuring that higher incomes translate into higher savings to fund investment rather than high consumption and inflation is a principal policy concern. International bankers worry that, as memories fade of the traumatic loss of income and security suffered in the early years of systemic transition, the willingness to work hard, save and invest will weaken and calls by left wing politicians to spend more will rise. In that case, they warn, the prospect of steady economic growth and the chances of catching up with the living standards of western Europe which are now in sight could remain tantalisingly out of reach.

1. The Polish economy grew by almost 7% last year, the biggest rise in Central Europe.

3. In the last 6 months an additional 2, 189 foreign companies have invested in Poland. 4. There are already 36 companies listed on the Polish stock market. (In 1991 there were just 5)

5. In 1990, the Polish inflation rate was 79.86%. In 1996, estimates suggest it will be 17%.

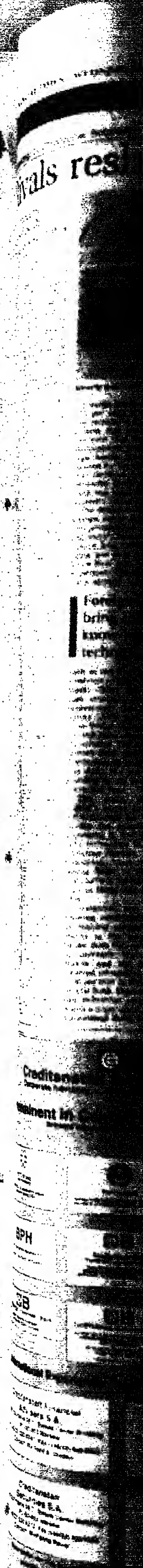
6. The private sector now accounts for almost 50% of Polish GDP. 7. The Polish parliament is now working on 127 new financial regulations.

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Banking: by Christopher Bobinski

# Rivals reshape sector

As competition intensifies, the banks look set for a period of consolidation

Poland's financial system is fast maturing and memories are fading of the early days when a liberal licensing regime spawned a crop of inexperienced, under-capitalised and sometimes dishonest banks. Now privatisation and consolidation are the slogans as the banks face up to the prospect of fierce competition after 1998 when access is liberalised by Poland's association agreement with the European Union.

Some of the private banks established in the initial halcyon days have failed and the National Bank of Poland (NBP), the central bank, headed by Ms Hanna Gronkiewicz-Waltz, a former academic specialising in banking law, has tightened supervision. The NBP now grants new licences only to institutions willing to support existing banks. Some otherwise doomed banks have been tucked into operations started by newcomers such as ABN AMRO of Holland and West LB from Germany. Others have been taken over by the NBP itself.

Crowing competition has fuelled a debate about how far foreign banks should be allowed to penetrate a banking system that is still poorly prepared to face the multinational banks with their seemingly limitless capital and vast human and technological resources. At the same time, Poland is under-banked. Only 10 per cent of Poles have a bank account and half the population say they have no contact with banks at all. Much of the economy operates on a cash basis.

Mr Witold Kozinski, the deputy head of the NBP, speaking at a recent conference, admitted that local banks would have "difficulty" in competing and said that access to the Polish market by foreign banks should be granted "carefully". The government's latest draft proposals suggest that foreign banks will not be blocked from buying into state-owned banks. But foreign ownership will be limited to no more than 15 per cent to 20 per cent in four selected banks. The quartet consists of PKO BP, the main domestic savings bank, the Food Economy Bank (BGZ), which serves the farm sector, Bank Handlowy and PKO SA.

Mr Ryszard Pazura, a deputy finance minister responsible for the banking system, sounds a more welcoming note. The presence of foreign banks such as ING of the Netherlands and Citibank of the US is "refreshing", he says. "Foreign capital develops banking institutions. It is a very positive phenomenon and a sign that Poland is becoming normal," he adds.



Minority group: few Poles have bank accounts, creating market potential

Foreign banks currently own 14.5 per cent of the capital of the country's entire banking system and few now contest the view that the competitive environment provided by foreign banks since 1991, augmented by the addition of several German banks such as Deutsche Bank and Dresdner bank last year, has helped the domestic banks to improve.

The debate on the role of the foreign banks is tied up with the privatisation of the banking sector. Domestic capital is scarce and foreign investors bring not only cash but also know-how and technological expertise. Those banks that have already been privatised,

## Foreign banks bring cash, know-how and technical skills

such as the Wiekopolski Bank Kredytowy (WBK) or the Bank Slaski (BSK), and whose foreign strategic investors are respectively the Allied Irish Banks (AIB) and ING, have done better than banks that are still state owned or lack a big investor. The Export Development Bank (BRE), in which Commerzbank holds a 21 per cent stake, is a star performer, doubling its net profit to 105m zlotys last year.

"The main issues for Poland's banks are working out a strategy for the future, having the management to implement it, and putting the right technology in," says Ms Christine Bindert, a banking consultant. "And this is happening faster in those banks that have a foreign investor than in those that don't," she adds.

Foreigners are currently showing considerable interest in making strategic investments in the larger Polish banks. Both ING and AIB want to increase their existing stakes and the latter has received permission to buy up to 40 per cent in WBK from the central bank. Daewoo, the Korean industrial conglomerate, wants a major share in the still state-owned Bank Depozytowe

Kredytowy (BPK) in Lublin. General Electric Capital from the US is poised to purchase a majority stake in the Warsaw-based Powszechny Bank Kredytowy (PBK), due to be privatised this summer, or take a stake in the listed Bank Powszechno Handlowy (BPH) where the state treasury still holds 46 per cent. Others that have signalled an interest in purchasing further stakes include ABN AMRO and Societe Generale of France.

Interest would be greater still if the government were to make its intentions clear on a controversial bank consolidation plan first mooted last year. Under the plan, PKO SA is to join forces with two state-owned regional banks in Lublin and Lodz and take over the Treasury's 63 per cent stake in the listed Polish Development Bank (PBR). The second consolidated group is supposed to coalesce around Bank Handlowy, which celebrated its 125th anniversary last year.

The former foreign trade bank is to get a regional bank in Szczecin and a 40 per cent treasury-owned stake in the listed BPH bank, much to the dismay of BPH's existing shareholders, which include the ING and the European Bank for Reconstruction and Development (EBRD). According to the government's draft proposals, the two groups would then be privatised and 51 per cent of the shares would be handed to pension funds that do not yet exist but will be created under planned reforms of the social security system.

But the seemingly arbitrary way that the government proposed for handing over its 46 per cent stake in BPH to what is still a state-owned bank raised doubts abroad as to the government's commitment to respecting the interests of private shareholders. The finance ministry now signals that it wants the BPH and the PBR stakes excluded from the plan. Deputies working in parliament on enabling legislation for the scheme also recently voted to include only 100 per cent state owned banks. But there is still a powerful lobby for the original plan and the matter remains unresolved.

PROFILE Wlodzimierz Cimoszewicz

# Reformer calls for conciliation

The prime minister wants to end the polarity that has dogged much of Polish politics

Mr Wlodzimierz Cimoszewicz, Poland's seventh prime minister since the collapse of communism, describes himself as "a man of compromise and dialogue". After an inauspicious beginning, the record bears him out.

The now 43-year-old lawyer joined the Polish United Workers Party, as the communist party was known, in the late 1960s while at Warsaw University. It was not a good time. Many had quit the party in disgust at the Soviet invasion of Czechoslovakia, in which Polish troops took part, and the anti-Semitic witch-hunting that engulfed the party as General Mieczyslaw Moczar, the interior minister, settled old scores in the last months of the regime of Mr Wladyslaw Gombulka.

For 13 years the slightly built, alert-looking academic taught international law at Warsaw University. Then in 1985 he, his wife and two children withdrew to their 21-hectare family farm in Bialystok province, north-eastern Poland. Four years later he was glued to the radio and television like millions of other Poles as Solidarity and the Communist party held the unprecedented negotiations that led to the first semi-free elections in June 1989.

"At last I thought Poles had a chance to change things, especially economically. But no-one had any idea that things would change so far or so fast," he recalls.

The man whom a former

wing front organisation, the Democratic Left Alliance (SLD), an amalgamation of over a dozen left wing groups of which the Social Democrats were by far the strongest and best organised. He accepted Mr Kwasniewski's invitation to stand as the SLD's candi-

date in the first presidential elections of December 1995. Mr Walesa was elected president, but not by the landslide he expected, and only after a second round run off with an obscure Polish-Canadian emigrant, Mr Stan Tyminski.

Mr Cimoszewicz, the future prime minister, picked up only 9 per cent of the vote. But that was the start of the left's return to power. A year later, in the 1991 parliamentary elections the SLD gained 12 per cent of the votes and 20 seats to become the second largest party after the Democratic Union, the Solidarity party, which picked up 58 seats.

Two years later, in the September 1993 elections, the SLD emerged as by far the biggest party and became the mainstay of the first coalition government, headed by Mr Wal-

dear Pawlak, leader of the peasant party (PSL). Mr Cimoszewicz became deputy prime minister and minister of justice.

At the government reshuffle that brought Mr Jozef Oleksy to the premiership in March 1994, Mr Cimoszewicz left the government after being refused the justice ministry. He returned to the backbenches, only to be recalled when Mr Oleksy resigned to defend himself against spy allegations made by outgoing president Mr Walesa.

In an interview earlier this month, Mr Cimoszewicz said that his main aim was to establish a dialogue with the opposition and seek broad backing for the tough socio-economic decisions required to slim down the coal industry and push through much needed reforms to the health and social security systems. A complex reorganisation of the system of public administration and local government is also on the agenda. With general elections expected in around 15 months' time and the political temperature set to rise, creating consensus will be a tall order. But the pipe-smoking premier is determined to keep channels of communication open with the Freedom Union (UW).

The UW is the successor to Solidarity. Its leader, Mr Leszek Balcerowicz, was the father of Polish economic reforms as finance minister in the first Solidarity government. But he faces a hard task welding former Solidarity supporters into an effective political machine capable of winning votes and forming an alternative government, or even an effective opposition.

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Cimoszewicz: 'a man of compromise and dialogue'

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The SLD is probably closer to the UW in economic and

other policy areas than to its junior coalition partner, the peasant party (PSL), which is suspicious of foreign investment and favours protectionism, specially for agricultural products. The PSL is also strongest in rural areas while both the UW and the SLD are essentially urban parties.

Mr Cimoszewicz, with his slightly detached relationship with the SLD and his friendship with prominent Solidarity era intellectuals, especially Mr Adam Michnik, firmly believes that Polish politics, with its historically influenced attitudes and relationships dating back to the Cold War and the anti-communist struggle, is due for a realignment.

"We need more rational criteria for differences between political groups. There are still emotional and historical gulfs between us."

"The left has re-established its position and there will always be space for a peasant party for the foreseeable future. But the Freedom Union and the Labour Union (UP) [which also emerged from the break-up of Solidarity] are both finding it difficult to reach the 10 per cent support level, and risk disappearance if they split or continue to weaken," he says.

Extinction of the opposition is not something Mr Cimoszewicz relishes. On the contrary: "Nobody can tell what will happen in Russia and elsewhere to our east. The danger is that if the Solidarity parties disappear their place could be taken by populist parties, including those with an anti-Russian and nationalist outlook. That would not be good for Poland," he says.

Anthony Robinson

# PRIVATISATION CHANCE FOR SUCCESS

Dear Ladies and Gentlemen,

The Ministry of Privatisation which I have been heading for two years, is seeking strategic investors for Polish enterprises going private. We are open to all proposals. Every day my associates and I meet with foreign business people interested in investing in Poland. Many of these meetings have resulted in promising contracts.

Polish privatisation can be a chance for everyone. We welcome not only major companies; global consortia and banks but small and medium size businesses as well.

Poland does not offer any special privileges to foreign investors. This is because we do not want to create an impression of providing privileges to either Polish or foreign companies. We do, however, offer a very attractive environment in a country which has a rapidly growing economy.

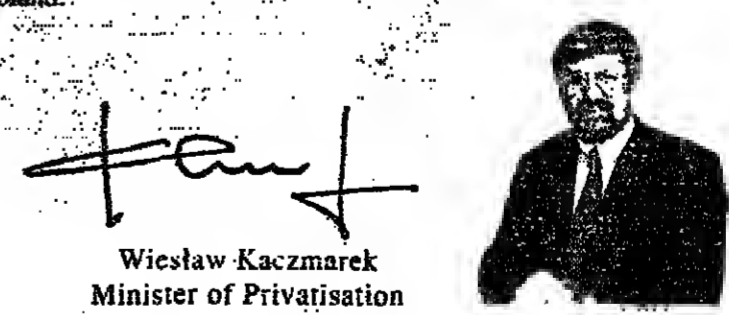
Why do I think it is worthwhile to invest in Poland?

Already, over half of the national income in Poland is generated by the private sector. It is notable that since 1990, the value of foreign investments in our country has reached a level of over USD 6 billion. After five years of political and economic transformation we now rank in the group of countries with the highest economic growth rate. Poland is also a market of nearly 40 million consumers.

Our country links Western and Eastern Europe, Northern and Southern - it simply lies in the heart of Europe. However, geography is but one factor. What needs to be stressed first and foremost, is the consistent foreign policy initiated in 1989 which focuses on creating the closest possible ties between Poland and the European Union countries. For the time being we are an associate member of the Union and we hope to become a fully fledged one in the near future. We have regulated our financial relations with the Paris Club and London Club. We expect to become a member of the OECD this year. Hence, Poland has become a secure country for long-term investment.

If you are looking to dynamically develop your company, you may take a closer look at Polish companies slated for privatisation. This will be a chance for success - for you and us. A chance to quickly establish a Common Europe.

I wish you success in your business endeavours in Poland.



Wieslaw Kaczmarek Minister of Privatisation

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4 POLAND

■ Retailing: by Christopher Bobinski

# A storm from the west

Hypermarket chains are taking advantage of the increase in Polish purchasing power

Brightly lit shops, their shelves well stocked with both imported and domestic goods, are the most visible sign of the changes market reforms have brought to eastern Europe's once gloomy streetscapes.

Poland is no exception: the country's retail sector is now more than 90 per cent privately owned and is often cited as a triumph of Poland's entrepreneurial spirit after 40 years of more or less centralised trade.

The reforms resulted in an explosion of street stall traders and new small shops that helped absorb the first shock of unemployment as the economy started to shed excess labour. However, this fragmented retail sector now faces a challenge from a wave of supermarkets planned by investors from western Europe aiming to take advantage of economies of scale and a lack of competition from units their size.

Estimates of the number of shops in Poland vary from 234,000 to 700,000 if the smallest outlets are included. In any event, the number of shops per cent is many times higher than in France or Hungary. And still at the moment there are a mere 1,400 supermarkets and only 13,000 large shops.

This will change with an announced investment of around \$1bn over five years by western retailers in suburban supermarkets and out of town sites, grouping not only food shops, but also do-it-yourself and furniture shops such as the Marki complex just south of Warsaw.

Mr Jan Chudzinski, managing director in Gerald Eve's Warsaw head office, notes the change in focus this is bringing for the real estate developers. "First, foreign retail activity was in the fast food sector with McDonald's and Pepsico with their Pizza King and Kentucky Fried Chicken brands looking for small sites. Now

the retailers are looking for five hectares at a time," he says.

Such developments are feasible now given that around half of Poland's domestic households possess a car. "All that needs to be done is to allow for more parking space than you would in the west," says Mr Julian Lyon of Henry Butcher, the property company. "This is because people tend to spend more time in the shops and spend less per visit," he explains, adding that this will change as purchasing power grows. Then more shops can be built on the excess parking space.

So far, Makro Cash and Carry, owned by SHV Holdings of Holland, has led the way in

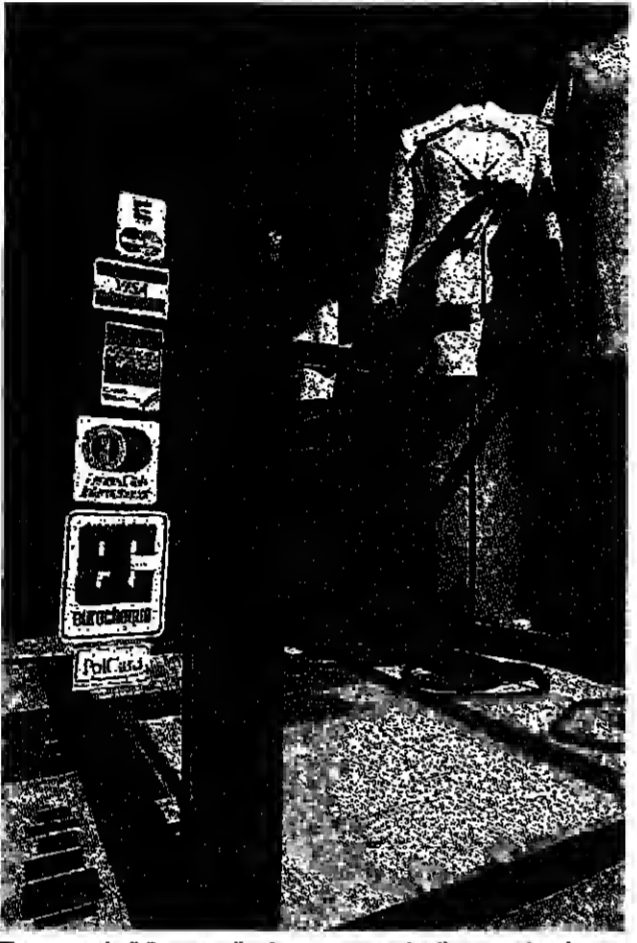
Poland. It currently has six stores in place, each sized at around 13,000 sq m, and plans to open five or six more stores this year as part of a \$100m investment programme. The formula is to restrict access to corporate customers, which means small companies, as well as restaurants and bigger businesses. But the crowds of shoppers at the weekend, when checkout queues can be an hour or more long, suggest that access is fairly free. Indeed, last year, the Warsaw store had the best results of Makro's 130 or so shops worldwide.

In Krakow, local small shop owners complain that turnover has fallen markedly since a Makro opened there. Indeed,

the expansion by the large retailers is beginning to come up against protests from small shopkeepers who are appealing to local authorities to withhold planning permission for new stores.

The government is aware that the expansion threatens to put many small traders out of business. Mr Tadeusz Soroka, a deputy trade and industry minister, has said that a document is being prepared on forms of providing investment support for domestic retailers. "We can't allow mass unemployment to appear in this sector," he has been quoted as saying.

Meanwhile, the western supermarket expansion is set to continue. Tesco, the large UK retailer, has bought the former state retail chain in Bielsko Biala and is preparing to invest up to \$200m in southern Poland. Leclerc and Deco de France have said that they want to build 60 or so stores around the country while other French retailers with ambitious plans in Poland include Casino and Auchan. At the same time, the do-it-yourself sector is being targeted: Stihnes of Germany has plans to open between 30 and 40 hypermarkets and Castorama of France wants to establish 16 such stores.



The wrong size? Some small units may not survive the superstore boom

■ The stock exchange: by Bob Vincent

# Poised for the big deal

Privatisations, pension funds and foreign investment make prospects bright for the WSE

The Warsaw Stock Exchange will celebrate its fifth anniversary in April and it appears that the bulls turned up early for the party and have recently been driving the market to record highs.

Analysts point to attractive fundamentals in the shape of a strong economy, growth in company earnings and a market that has the potential to become the dominant one in the region. The WIG, the WSE index, jumped 37 per cent in January to make Poland the world's best performing market during that month and early in March it hit its highest point since August 1994.

ING Barings has detected a strong stream of foreign funds, supporting its prediction that portfolio flows into Eastern Europe would accelerate markedly this year and Poland would be an important beneficiary. It sees foreign ownership variously put at 20-25 per cent rising to 35 per cent if these flows continue. This would be good news for

the privatisation goal. First he wants to see large-scale sell-offs. "What we need is big Polish companies that would become flagships for our market." The stock exchange is now largely made up of small- to medium-sized companies and the large state entities have yet come to market.

Ha says that one possible flagship candidate is Polish

20 per cent, a strategic buyer taking 30 per cent, pension funds taking a further 30 per cent and the state holding the remaining shares.

"This would be a way of privatising large companies and helping to launch the pension fund industry," he maintains. Such a move, he adds, would be attractive to foreign investors since a cluster of big companies would be more cost effective for them.

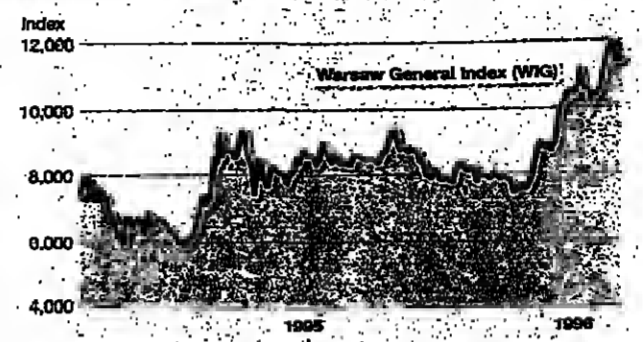
"It's easier to invest in four large companies than 15 smaller operations," he says, adding it reduces the need for time-consuming analysis. While big sell-offs impend, the country's mass privatisation policy is coming to fruition and posing other challenges and opportunities for the exchange. The programme is centred on 15 National Investments Funds that have been allocated shares in 512 companies, with an underlying book value estimated at around \$3bn.

According to analysts, the mix of companies is heavily weighted towards the engineering and chemical sectors. The funds are managed by local and foreign firms, including Kleinwort Benson, BZW and Lazard Freres.

Mr Roznicki says that he believes that the NIFs will be listed on the exchange by the end of year. Some of the individual companies will also get listings, but analysts think that the NIFs will want to restructure such companies to enhance their value before bringing them to the market.

Mr David Young, director of Wood and Company, a securities firm specialising in central European stocks

Warsaw stock exchange



Source: FT Global

and a market capitalisation of more than \$6bn. A fully-computerised system has been installed and the exchange operates a single price market system.

It has achieved this progress within a regulatory regime that encompasses full disclosure rules and tough measures against fraud.

Poland's privatisation programme is one significant element in the changes Mr Roznicki is seeking to bring about. Another is the Polish government's desire to reduce the burden of state pensions and pave the way for private pensions funds.

Mr Roznicki says that pension funds would complement

Copper, 15 per cent of which is to be floated on the Warsaw bourse later this year. Others, for which privatisation dates have yet to be set, are Telekomunikacja Polska, the national telephone operator, the Bank Handlowy and Polska Nafta, currently being organised as a state-owned company for the oil industry.

The argument against such privatisations has traditionally been that the market would not be able to digest them. This, Mr Roznicki argues, is where pension funds could play a key role, taking up part of the share allocation. Mr Roznicki envisages a privatisation structure that would involve a public float of

Continued on facing page

■ Huta Lucchini: by Anthony Robinson

# Furnace rises from the ashes

Italian ownership and investment have rescued the Warsaw steel plant from closure

Throughout the former communist world the bulk of heavy industry remains firmly in state hands, partly because of a lingering belief in "family silver" and in controlling "strategic industries" and partly because of the indifference of private investors.

The exception is Huta Lucchini Warszawa, which Mr Bruno Schwabb, the managing director, proudly describes as "the only private steel company in the east". The decision to look east was a strategic one for the Brescia-based Lucchini group and was taken in 1990.

"We are the number one private producer of long products in Europe following our purchase of the Piombino and Scrvola (Trieste) steel plants in Italy. We were looking to expand in the east because steel is expensive to transport. Privatisation in Poland gave us the chance to buy a steel plant close to the German and Scandinavian markets and, looking further ahead, close to the Russian market as well," says Mr Schwabb.

"At Huta Warszawa we found an entire industrial structure, although much of the equipment was Russian made and dated back to the 1950s in an industry where plant has to be renewed every decade. Of the five furnaces one was always closed for maintenance and the others worked at around 20 per cent of the capacity of a modern furnace," he recalls.

At first, Lucchini, a pioneer in scrap-based mini-mills in the intensely competitive environment of the north Italian ironmasters, thought that it would only need to send a few of its personnel to supervise the transformation of Huta Warszawa. But around 20 Lucchini specialists are now employed at the plant, which was losing \$2m a month and held no stocks before Mr Lucchini took over the controlling 51 per cent in the company.

"We also had to cope with a major cultural problem. The workers council thought it still had the right to choose the board. We had to tell it that was the prerogative of the owners."

In June-July 1994 Huta Lucchini

was closed by a 49-day-long strike over the issue. And the company also faced 18 months of negotiations with the workers council over job cuts. "Finally we got the go-ahead to cut the workforce of 4,600 by 40 per cent. Today we employ 2,800 but there were few redundancies and many more are working as private contractors," Mr Schwabb adds.

Establishing clear property rights over the plant and over land that, in the 19th century, was used as a Russian army firing range, was as complex as coming to terms with the workers. "Nobody warned us about the difficulties we would face acquiring the land. There were no details in the land register or maps of the land which was used by the Czarist army from 1840. In the end, we secured ownership of the plant and a renewable right to use the land for 99 years. But we lost two and a half years over all this."

It was not until May 1995 that Lucchini was finally able to sign contracts for the purchase of new plant including the electric furnaces, ladles and continuous casting equipment needed to bring cost and quality standards up to those in the west. By so doing, it ensured the re-birth of a plant that was earmarked for closure by Hatch and Co, the Canadian consultants that drew up a plan for the future of the Polish steel industry for the first Solidarity government.

The Canadian plan called for the closure of the notoriously polluting plant as a response to lobbying by Warsaw's city council. Instead the ECU60m (\$100m) first stage of the investment plan involving closure of the worst offending sections - the carbon gas plant and the foundry - and the conversion of coal-fired boilers to gas. Air pollution levels were reduced by 80 per cent while a new water filtration and recycling system eliminated pollution from this source.

"The plant will become competitive when the continuous casting line comes into operation later this year and the blooming mill is closed. But in western Europe such a plant producing 250,000 tons of finished steel would function with 800 not 2,800 workers. The really difficult task of changing people's mentality so they think in terms of cost reduction still lies ahead," Mr Schwabb says.



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Energy by Christopher Bobinski

# The long road to liberalisation

### The government is stepping up its privatisation drive, but obstacles to reform remain

Free market reforms have made little progress to date in Poland's energy sector, where mounting losses and the urgent need for modernisation threaten to become a large financial drain and inhibit future economic growth.

Recently, however, Mr Klemens Scierski, a former power station manager who is now the minister of industry, published a white paper outlining future privatisation plans for the electric power generating and distribution sectors.

Moves are also afoot to restructure the Polish Oil and Gas Company (PGNIG), an old style vertically integrated monopoly involved in everything from prospecting to the extraction and distribution of natural gas.

The government also continues to wrestle with an over-managed and loss-making coal industry. Mr Jerzy Markowski, a deputy industry minister, has put forward an ambitious restructuring plan involving a 12 per cent cut in output to 120m tonnes by the year 2000, and a return to profit within three years.

Privatisation of the coal industry is scheduled to begin with the sale by the end of 1999 of Budryk and Bogdanka - the industry's two most efficient mines.

The plan also provides for the disposal of Wegielok, the state-owned coal export agency, Wegloby, the state-owned domestic coal distributor and Kopez, a mining machinery trader. Ownership of the remainder of the mines will be passed to a new body called Polski Wegiel (Polish Coal). This will be a holding



Fuelling debate: the coal industry is the object of controversial plans

company with majority stakes in the coal producers, which will be organised into six large mine-management groups.

These plans, however, could founder. The direct cost to the budget of reducing debt and paying for pit closures and up to 80,000 job cuts over the next five years will be \$2.1bn.

Controversy also surrounds plans to construct a pipeline designed to bring gas across the country from the Yamal peninsula in northern Siberia to Germany. Opposition parties accuse the former communist government of seeking to limit Poland's freedom of manoeuvre. In reality, by providing an additional 1.3bn cu metres of

Russian natural gas a year by 2010, the pipeline agreement would allow a rebalancing of the present coal-dominated energy mix and increase the choice of fuels for power generation.

Hard and brown coal currently provide 77 per cent of Poland's basic energy needs. The country has no oil fired power stations and following a decision in 1990 to stop construction of the Zarnowice atomic power station on the Baltic coast, there are no plans for any atomic power generating capacity. This leaves coal to provide 96 per cent of the power industry's fuel needs - and gives powerful political

leverage to the miners of Silesia.

Politics also rears its head in energy pricing policy, which is still in the hands of the government. Only now is a long delayed draft energy law being debated in parliament. This promises to free energy prices, currently controlled by a special regulator. The government recently dismantled the energy sector by limiting electricity price increases to 50 per cent of retail price inflation. For the first time, it failed to provide the real increase in revenues demanded by the industry to finance environmental improvements and general modernisation. Mr Hubert Gabrysa, the deputy industry minister responsible for the power sector, says that electricity prices should go up "by one or two points over inflation" in 1997 to make up ground lost this year. But that decision could be difficult to maintain in an election year.

The power industry estimates it will need \$50bn over the next 15 years to meet the stricter ecological standards due to come into effect in 1998 and replace half the 33,000MW installed capacity which is obsolete. To achieve these targets, the industry is looking for a 30 per cent rise in prices from 5.8 US cents equivalent per average kilowatt hour to 7.6 cents by the end of the century.

Most of the capital, however, will have to come from foreign investors, which is why the government is moving to privatise the power sector. Pilot sales of the 5740MW plant in Adamow Konia (PAK) lignite fired electric power plant as well as two power distributors in Poznan and in Silesia are due to start this year.

"We must privatise to keep energy prices from growing too fast, to get capital for modernisation and access to technol-

ogy and management skills," Mr Klemens Scierski, the industry minister, said when unveiling the white paper for the industry.

The paper envisages the introduction of a free market for power with groups of power producers competing with each other to supply distributing companies and individual clients in a system modelled on the privatisation of the UK's power sector.

The success of the plan turns on the principle of Third Party Access (TPA) to the power transmission system as well as to the country's pipelines. However, TPA has met with resistance in parliament from the gas lobby, which fears an influx of Russian gas. Nor is it welcomed by all of the power stations, as the less efficient

of their businesses. Elektrim wants to create a holding company with its five core operating divisions - including power equipment, cables and telecoms - becoming subsidiaries.

Mr Piotr Mroczkowski, Elektrim's chief financial officer, says a holding company structure would reflect the company's aim of concentrating on core divisions, tidying up management structure and improving efficiency.

Rollimpex, on the other hand, which was floated in 1994, faces a further sell off of shares. The government, which holds 49 per cent, is to offer a 30 per cent stake aimed

at passive long-term investors. The sale is set to raise about ZL123m.

Elektrim was listed the Warsaw Stock Exchange in 1992 and last year recorded net profit of ZL51.8m up from ZL49.4m in 1994 with turnover rising to ZL1.2bn, against ZL1.04bn. It is forecasting an increase to ZL170m this year.

Germany is still a key market for both exports and imports for the company, but overall its export markets have undergone a sea change - the European Union now accounts for about 60 per cent of turnover, supplanting the Comecon countries.

At home, infrastructure development has already paid dividends for Elektrim. A consortium it was in recently won one of the licences to build a digital system for mobile communications in Poland. US West was one of its partners in the successful bid. In six months they hope to have the system operating in Warsaw but need to raise some \$100m for the project.

Elektrim is also hoping to

Elektrim and Rollimpex by Bob Vincent

# Models of the modern market economy

### How two former monopolies have changed their strategies at home and abroad

Elektrim and Rollimpex are two old hands at foreign trade that have had to learn new tricks. Elektrim, the electrical engineering and trading conglomerate, and Rollimpex, a big name in the agricultural industry, are both former monopolies that have adapted to and helped drive economic change in Poland.

Elektrim has acquired a swathe of companies, in sectors as diverse as power station equipment and farm produce. Rollimpex, meanwhile, has been at the forefront of the fundamental changes in Polish agriculture and bought companies in related sectors such as food processing.

Their monopolies allowed them to build financial muscle and business expertise - two advantages they used to good effect as Poland switched to a market economy. Elektrim, in particular, has been active in buying companies, putting them back on their feet and then selling a chunk of the resurrected concern. It has even earned itself the name of an unofficial merchant bank. The group has about 100 companies in Poland and about 20 overseas and agents in more than 50 countries.

The two companies share common endeavours. After amassing a web of interests at home and abroad, they see increasing potential in the domestic market as the economy continues to grow and investment increases. For Elektrim, the country's huge infrastructure projects are particularly important.

Mr Nikodem Muszynski, Elektrim's commercial director, says: "We have traded for a long time with the West and built up the know-how which we can now use to good effect. We are ready for the new environment."

As well as watching the home market, both companies are scrutinising the structure

of their businesses. Elektrim wants to create a holding company with its five core operating divisions - including power equipment, cables and telecoms - becoming subsidiaries.

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Elektrim is also hoping to

win contracts for one of Poland's new motorways, the A2, which could involve supplying cabling, lighting and cement through its involvement in Poland's Ozarow cement plant. It is also forming a consortium to bid for Poland's PAK power stations.

The company, whose cable and wires division owns three of the biggest plants in Poland and accounts for about 29 per cent of total turnover, has about 70 per cent of the domestic cable market. Meanwhile, its power equipment division is making its mark abroad with the delivery and assembly of a 75MW power plant at Kutch in Gujarat.

Rollimpex is similarly pursuing a policy of increasing domestic strength while feeding export markets. It trades in about 1,000 agricultural products and in 1994 it accounted for 15 per cent of Poland's foreign trade in vegetable products. It is predicting an 18 per cent rise in profits this year to ZL49m.

The five main commodity areas in which it is the leading exporter and importer are grain, feedstuff, fats, oils, potatoes and sugar and its main trading partners are companies in the European Union.

It has, however, been altering the overall emphasis of its business - switching from a foreign trade company to a trade and processing concern.

Investment in food processing is crucial to its goal of increasing vertical integration and building up further areas of sales and profits growth. Mr Roman Mlyniec, president and director general, says 65 per cent of profits came from foreign trade in 1995 but he wanted to lift the domestic constituent to 50 per cent.

The group has been investing heavily in feed mills and storage facilities in the feedstuffs sector and is planning to buy farms through the country's privatisation programme. Rollimpex already has about 10,000 hectares. It is also helping to revive the country's rape seed production, providing fertilisers, and financial assistance to farmers.

Gorazdze by Bob Vincent

# The comforts of home

### New competition in Germany means the cement maker is turning to the domestic market

One of Poland's new motorways is due to pass close to Gorazdze's cement plant at Chorzla, near Opole, in south west Poland. Gorazdze is the largest and one of the most modern cement plants in Poland, producing around 2m tons a year.

The new motorway, part of Poland's ambitious \$8bn programme for a network of new roads, will prove a boost symbol

of how Gorazdze is having to meet its strategy. In the face of increasing competition in the important German market, it intends to place more emphasis on the home market, where infrastructure programmes are expected to revive demand for cement.

The group is also investing heavily to improve efficiency, particularly in its less profitable lime business, the fourth largest in Poland.

Gorazdze was privatised in 1993. CBR, the Belgian materials group, took a strategic 30 per cent share in the company, with an option on holding a majority stake. As part of the deal, CBR agreed to invest in

both Gorazdze and the less efficient plant, Strzelce Opolskie. In 1996 Germany's Heidelberg Zement took a majority stake in the Belgian company, partly in order to stem the flow of cheap cement imports into its home market.

Gorazdze has proved an impressive catch. According to ING Barings, it is by far the most profitable cement plant in Poland and also a low-cost producer. Net profits in 1995 rose to ZL59.5m from ZL43.2m in 1994, while sales soared from ZL182.5m to ZL225.2m.

Gorazdze also produces a range of lime products, although these are by no means as profitable as its cement business.

In 1994 one third of the company's volume sales went abroad. Of these, 90 per cent were bound for Germany. Gorazdze's key German market, however, is becoming more competitive. The cement producers there have been investing heavily and have become increasingly price competitive while improving the quality of their products.

Mr Andrzej Reclik, Gorazdze's financial officer, says the company will have to look to the home market - of which it currently has 15 per cent - for growth. "We believe that the domestic market will grow as investment picks up in the construction sector and on motorways," he says.

The building of new residential and commercial premises

will boost domestic demand, but by a dramatic slowdown that began in the late 1970s.

Rising demand, put at about 8 per cent or more by some analysts, would push up cement prices, which have been running at no more than the level of inflation.

Key to the fight to win a bigger share of the domestic market will be drives to improve efficiency and product quality.

Gorazdze uses the dry technology method of production and has been introducing new products, such as the higher quality Portland cement. Cost efficiency will be further enhanced by a new tyre burning plant that will provide power for the plant and so cut energy costs.

In addition, Gorazdze has formed a trading company with its sister plant, Strzelce Opolskie, to co-ordinate promotion and marketing and, says Mr Reclik, create a new force in the home market.

The installation of a new plant, due for completion in 1997, will improve efficiency and quality control in the lime business.

Analysts believe that there will be no immediate pick up in Gorazdze's earnings and in fact some warn that margins will continue to be under pressure. However, they are looking for a recovery in 1997 as the benefits of restructuring and investments begin to be felt.

# Forces for change

to increase the degree of risks," he says, pointing out that the market has been seen to operate efficiently and has not met with any big hitches.

The removal of bureaucratic barriers could help silence those analysts who argue that some Polish regulations have kept foreign investors at bay.

Regulatory reform and privatisation are not the only forces for change. There is technology, too. The exchange is planning to introduce continuous trading in some equities this year and speed up the process whereby established, quoted companies can raise further funds.

Mr Rozniacki is keen to "remove unnecessary bureaucracy and procedures" without jeopardising standards, now that those working on the exchange have built up some expertise. "We can now afford

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6 POLAND: Silesia

Regional overview: by Anthony Robinson and Christopher Bobinski

# New life beats in industrial heartland

The area that bore the brunt of recession is showing signs of revival

When Poland nose-dived into recession in 1990, Silesia, the heavy industrial heartland of the country, felt the pain more than any other region. Conditions remain grim in the isolated mining villages and the high-rise apartments, whose crumbling plaster is darkened by the soot from thousands of chimneys. But a big new DMS60 car plant investment announced by General Motors earlier this month could be the start of a shift towards a more consumer-oriented economy just as the economic recovery that first hit Warsaw and western cities such as Poznan, Wrocław and Szczecin, is lifting the region's partially restructured heavy industries off the floor.

The densely populated region is a web of interconnected towns and mining villages centred on the city of Katowice. It is one of the great industrial conglomerates of Europe. But the basic infrastructure, including the railways, coals and many of the mines and steel mills, was built in the 19th century when the region was divided between Germany, Russia and Austria. This legacy of tall chimneys, cobble stones and grimy red brick characterises the area. But Silesia also received heavy investment during the war, when it became a centre of the Nazi war economy, and again in the 1970s after Edward Gierk, a

former miner, became leader of the communist party and developed the region that had been his local fiefdom.

By the end of communist rule, however, the area was run-down, largely obsolete and suffering from deadly levels of air, water and land pollution. Visited at the tail-end of winter, with dirty yellow snow on the ground, blackened trees, and rivulets of sooty water running down the gutters, Silesia is bleak indeed. But unlike Germany's Ruhr Gebiet, which resembled

**The upturn has increased demand for Silesia's basic products**

Silesia 30 years ago, the 5.5m inhabitants of the region cannot count on receiving from the impoverished Polish state the billions of dollars needed for rejuvenation.

This is not an easy message for the region's traditionally militant trade unions to digest. A "Contract for Silesia" signed by the government last November after months of negotiations with trade unions is long on words, but only promises 21100m(\$25m) over the next three years in hard cash.

The contract offers no grandiose new investment projects but ear-

marks the funds to provide state guarantees for loans to small- and medium-sized enterprises. The message is that Silesia's salvation will depend mostly on the efforts of its own hard-working and resourceful people.

However, the prospects for recovery may be brighter than first impressions suggest. The upturn in economic growth since 1993 has increased demand for Silesia's basic products. Ahead lies the prospect of decades of heavy investment in motorway, railway and other steel and cement intensive infrastructure developments.

A strategic plan for the future of the steel industry commissioned from a Canadian consulting company at the height of the recession recommended the closure of half the region's 25 steel plants and the concentration of steel-making on only 11 plants. That oow looks too pessimistic. The report calculated that around \$50 was required to reshape the industry and leave it competitive once protective barriers against EU imports came down in 1998. That figure remains realistic, although unlikely to be raised in full.

Successive Polish governments, and there have been seven since 1989, have also drawn up plans for slimming down Europe's biggest coal industry, which is entirely concentrated in the Silesian basin. Over the last decade total coal output has declined from nearly 200m tons to 130m tons, of which around 80m tons a year is exported at a loss. Employ-

ment has also steadily declined.

But at least 15 more heavily loss-making mines need to be closed with the loss of another 70,000 jobs if the industry is to be brought back to profitability. Lower coal production and export would also reduce the excessive strain on the nation's infrastructure caused by hauling millions of tons of coal across the country by road and rail to the Baltic ports. But, like those in Britain in the 1980s, Polish politicians face an uphill task in persuading miners that Poland would

tries. The isolated mining communities have set a high premium on traditional family values, with one male bread-winner and women staying home with the children. This tamability, and the slow pace of restructuring to date, have kept unemployment, at 9 per cent, well below the national average of 15 per cent. But with unemployment destined to rise in traditional sectors, the need for new investment and new industries has never been more urgent.

Fortunately, help is at hand - in the reassuring shape of General Motors. A small army of architects, estate agents, lawyers and accountants spent six months examining sites all over Silesia for GM's planned automobile assembly site and eventually decided on a site at Gliwice, alongside the canal which runs from the city to the River Oder and into the German canal system. "The expectations sparked off by General Motors were enormous. Every town in the region put forward its proposal," says Mr Eugeniusz Ciszak, the provincial governor of Katowice.

The final choice for the 2,000 job factory was between Gliwice and a site next to the Huta Katowice steel complex. Huta lost, but not completely. The week after GM made its decision Huta Katowice announced it had agreed a 50/50 joint venture with Sidmar of Belgium to go ahead with a third continuous casting mill linked to a cold rolling mill. The mill will produce high quality strip for GM and other plants.

**Until now there has been an absence of high-tech industries**

actually be richer if it produced less coal from loss-making pits and spent the money on other things.

Economists at the regional government headquarters in Katowice worry that the higher pay awards that ended recent strikes were unmatched by productivity gains and will increase the coal industry's current losses, raise the cost of future redundancy payments and set unrealistically high expectations for wages in alternative employment.

Until now the great weakness of Silesia has been the relative absence of new consumer and high-tech indus-

General Motors site: by Anthony Robinson

# American car move raises local hopes

GM's Gliwice plant will be good news for steel workers

Mr Scott Mackie, the Canadian vice president of planning for General Motors' international operations grabs a sheet of paper and sketches a rough box. It takes in a raft of new automobile assembly and component plants that has sprung up over the past five years in central Europe. Hungary has a new Suzuki plant and an Audi engine plant near the Austrian border; the Czech Republic has the big new Volkswagen Skoda plant and associated facilities clustered around Mlada Boleslav; Slovakia has a rapidly expanding Volkswagen assembly plant in Bratislava; Poland has Fiat at nearby Tychy and Bielsko Biala. Dae-roo is investing heavily in new production facilities at the old FSO plant in Warsaw, and so the list goes on.

On Mr Mackie's sketchmap Silesia lies right in the middle of the box - and all around five 38.5m Poles who constitute the highest potential market in the region.

But while the strategic value of Silesia was clear it took months to decide between dozens of potential sites. Many proved unsuitable because of the level of pollution or because of the difficulties in establishing who exactly owned the land that GM wanted to buy for the highest greenfield car plant in central Europe.

In the end, the choice fell upon Gliwice, a town with good educational facilities and relatively clean air on the western outskirts of the region. The 70 hectare site lies

on the banks of the Bismarck-era canal leading to Berlin and the Baltic, and enjoys excellent road and rail connections. The site, now just farmland, had already been acquired by the local authority, which is negotiating the sale with GM's property team.

The final choice was bound to disappoint the losers. But GM's plans for an integrated car plant with metal stamping, body welding, paintshop and final assembly and capable of assembling up to 100,000 cars a year by 1998 are expected to bring in thousands of new related jobs for component makers.

Looking further ahead, GM is already contemplating future expansion and the investment of a further DM250m-DM350m to raise capacity to 150,000 to 200,000 cars a year, including a new small car, still under development, for sale throughout Europe as Fiat already sells its Polish-made Cinquecento across the continent.

This is all good news for Huta Katowice whose integrated steel complex was originally designed to produce 9m tonnes of steel a year using local coal and iron ore shipped from Krivov Rog in Ukraine. It was the centre piece of Silesia's last investment boom in the 1970s when billions of borrowed dollars were poured into the region.

But huge cost over-runs on the project nearly bankrupted Poland, starved all other investment projects of capital and stopped construction of the Huta Katowice complex when only half its planned capacity was built.

The legacy of the communist years was a plethora of small,

obsolescent, and polluting steel plants in heavily populated areas.

Now that GM has given the go-ahead for the new assembly plant, Huta Katowice has decided to press on with its long delayed plans to build a brand-new strip rolling mill at the end of its planned third continuous casting line. This will fulfil most of its original ambitions and improve the overall profitability of the complex.

The articles opposite describe how other companies are helping to change the region.



The FSO plant at Warsaw: like Gliwice, the object of foreign investment

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Nalco-Fueltechs by Anthony Robinson

# Green rules create niche

**Government action to control pollution has led to the formation of a new joint venture**

A project with great potential significance for air quality in Poland's most polluted region and way beyond is taking shape at an obscure district heating plant at Legnica, a former German city and Soviet army base near the copper mines of lower Silesia.

It is possible to burn cheaper grades of coal, he adds.

The company's "SOx, NOx and particulate reduction" technology is already in operation in three coal and lignite fired power stations just across the border in the Czech Republic. But the Legnica contract is the first in Poland, by far the biggest potential market in central Europe.

In February, the company reached an agreement with TRC Companies Inc of Windsor, Connecticut, under which TRC's Polish joint venture company, Pakto SA, will market and provide engineering support and \$50m in finance for what Fueltech hopes will be a breakthrough into the Polish and wider central European market.

TRC's partners in Pakto are Poland's two leading environmental protection funding agencies, the National Fund for Environmental Protection and Water Management, and the Bank for Environmental Protection. Through this partnership Fueltech gains access to US import-export bank credit lines for environmental protection projects involving US technology, and to local finance.

Recent trials at the Legnica district heating plant exceeded the government's new ecological norms, Mr Luther Wolfenden, the American project

manager says. FuelTech is now phasing in a fully commercial system at each of the five furnaces. The project is being closely followed by local companies, including the nearby Miedz Copper Combine, which has more than a dozen refractory furnaces suitable for the retrofit technology now being installed at Legnica.

The installation involves the construction of large metal boppers to contain the lime and urea-based slurries and the speciality chemicals that are all injected at carefully calculated points into the flue gases.

In a deliberate boost to the local economy all the steel work has been contracted out to a local entrepreneur, Mr Andrzej Novak. The former welder set up his company, Kolorem, in 1990 and now employs 45 people. "The Fueltech contract amounts to 85 per cent of my current workload and has helped to take up the normal winter slack when I have to lay people off," he says.

"The problem for small businessmen like myself is that state companies are short of cash and cannot pay, while there are very few private companies around here. It is also virtually impossible to obtain credit."

"Fueltech helps by providing working capital and making payment as work proceeds.

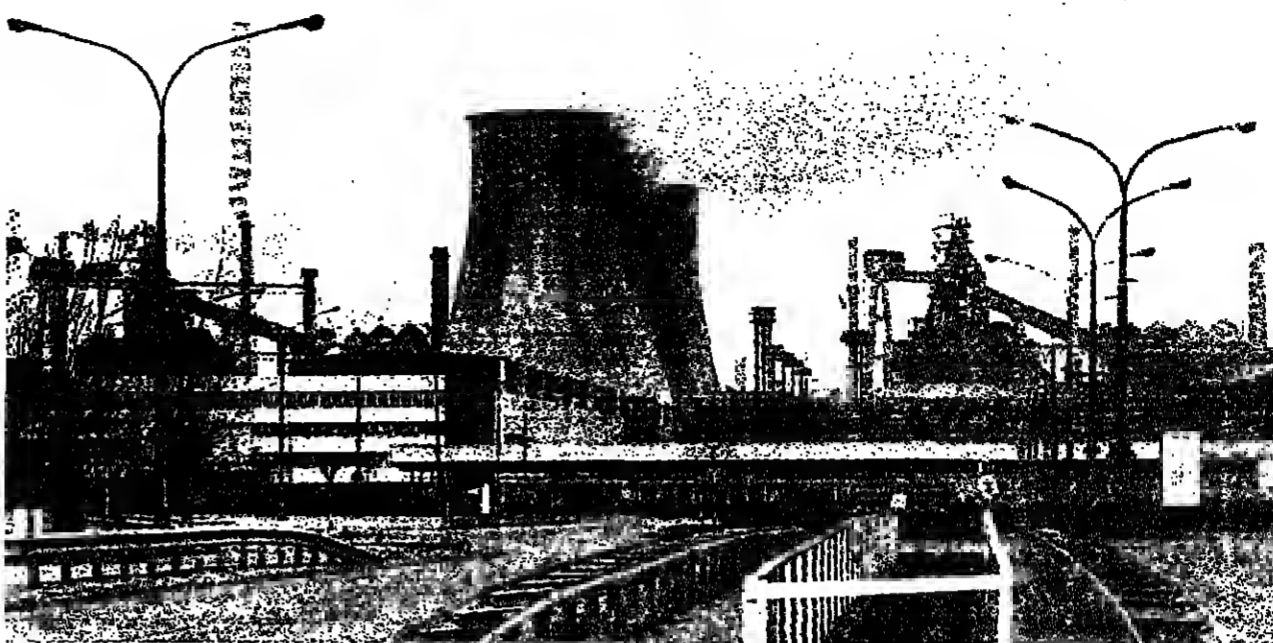
This is important because otherwise it is hard to get good labour - most of the local skilled welders now work over the border in Germany."

The relatively cheap and simple ancillary equipment that is required to give support to the Nalco-Fueltech processes leads to spin-off work for the local fabricators and suppliers. It also enables Polish industry to continue using relatively cheap and indigenous Polish coal.

"This fortunate combination helps to make Poland an ideal country for us," says Mr Durr, a South African who was formerly South Africa's minister for trade and industry - a post in which he established close links with the mining industry.

"Over 90 per cent of Poland's power is generated from coal. It is politically and socially impossible to close the coal mines and economically impossible to replace the existing power plants," he says. "At the same time, however, anti-pollution legislation is now in place and polluters will face heavy fines if they do not comply with it. By happy coincidence our triple process eliminates the three main types of pollution and is compact, affordable and retrofittable."

The marriage of Nalco's expertise in speciality chemicals for treating water, slurries and other effluent and Fuel-



Noxious waste? The government's campaign to stem pollution, endemic in Katowice, has created new business opportunities

tech's engineering and process plant skills has created a relatively low-technology solution that can be installed with minimal disruption to production. Sulphur dioxide reduction involves the injection of a lime-based slurry into the furnace followed by downstream humidification and a bag house to collect the resulting inert dust. The nitrogen oxide reduction involves the furnace injection of urea-based chemicals; particles are collected by a fabric filter bag house and the resulting chemically inert

waste can be used for construction or as a slow-leaching base for fertilisers.

FuelTech is focusing on the Polish market because of its size but also, according to Mr Durr, because the company notes a "sense of urgency and responsibility on the part of government and a high quality engineering capacity."

"When the orders come through we will produce as much of the equipment as we can locally," Mr Durr says. Fueltech has already installed more than 180 units

around the world, mainly in Germany and the north-east US. It is also looking at China, Ukraine, Belarus and Russia. Mr Durr notes that the need for environmental protection only becomes a market for pollution abatement technology when suitable legislation is in place and enforced. "That is the situation in Poland, but not yet in the former Soviet Union. When it is, we expect that Poland will become our springboard for eastward expansion," he adds.

Tough new air pollution abatement laws come into effect between 1995 and 1997. The main goal is to reduce sulphur dioxide emissions by 70 per cent to 1.8m tons a year by 2000 and cut Nitrogen Oxide (NOx) emissions, currently at 1.3m tons a year, to 0.9m tons a year by 1997.

The first target is to cut NOx emissions in two stages by the end of 1995 and the end of 1997. New plants coming on stream after 1998 will also be required to have sulphur dioxide emission levels that are 75-80 per cent lower than those today.

Elstal Labeby by Christopher Bobinski

# Thoroughly modern mill

The managers of the steel company have pursued a bold strategy of modernisation

Mr Kazimierz Ochab, the technical director of Elstal Labeby, is quietly proud of Europe's most modern electric arc furnace and continuous casting line.

The new equipment has just been installed at the Labeby steel mill, at the western edge of Silesia's sprawling indus-

	1985	1989	1990	1991	1992	1993	1994	1995*
Steel production	16.1	15.1	13.6	10.4	9.9	9.9	11.1	11.8
Rolled products production	11.8	11.3	9.8	8.0	7.6	7.6	8.6	9.0
Exports	2.1	2.5	3.7	3.7	3.4	3.2	4.0	3.8
Imports	1.4	1.1	0.7	0.2	0.4	0.7	0.8	1.0

Source: Central Statistical Office (GUS) and Plyn Zdravstwo, "Estimated data"

trial agglomeration of Katowice, and is currently undergoing trials. It sits in high-tech splendour in a spruced up 55-year-old building where the heat, noise and stink of the open hearth furnaces it has

replaced are fast becoming a distant memory.

Without management's persistence and determination, the \$70m investment would never have been made and Labeby would have become just one more abandoned and shuttered factory in a landscape littered with industrial relics.

"We could only count on ourselves," Mr Ochab says of an investment that ensured Labeby's survival in a much more efficient and slimmer form, employing 250 workers where 300 were employed before.

The plant has diversified and now supplies the building industry

Senior managers were driven by a combination of fierce loyalty to their plant and fear for their own future. Had Labeby not been modernised the mill would either have gone under for economic reasons or have been forced to close on the orders of the environmental authorities.

Elstal Labeby, which owns the new mill is a joint venture between Labeby and Stalexport, the now private former state trading company, which is building a 25 per cent stake in the Polish steel industry. Stalexport and Labeby jointly put up 32 per cent of the funding for the furnace and casting line. Their investment constitutes the first step in the privatisation of Labeby, with Stalexport in the role of strategic investor.

A consortium of six local

banks led by the enterprising Export Development Bank (BRE) helped finance the purchase of equipment from Mannesmann Demag and Switzerland's Concast as well as an oxygen plant from BOC. The remaining 33 per cent came in the form of a low-interest loan from the National Fund for the Protection of the Environment (NFOS) whose money comes from fines paid by companies that contravene environmental standards. The project went ahead without supplier credits, however, as the Polish government refused to provide loan guarantees.

Mr Wilhelm Kirs, the managing director of Labeby, which was founded in 1846, when the area belonged to Prussia, is as pleased as any of the mill's 1,800 employees at the success of the project. He has managed the plant since the beginning of the 1990s when it stayed in profit and avoided debt. Last year it made a net profit of \$3.2m on sales of \$120m, around 10 per cent of which came from export markets such as Spain, Austria, Switzerland and Iran.

Mr Kirs has to pay for the investment and retain his leadership position as a supplier of steel supports to the coal mining industry while diversifying into making steel products for the building and other sectors. His three rolling mills also have to be modernised.

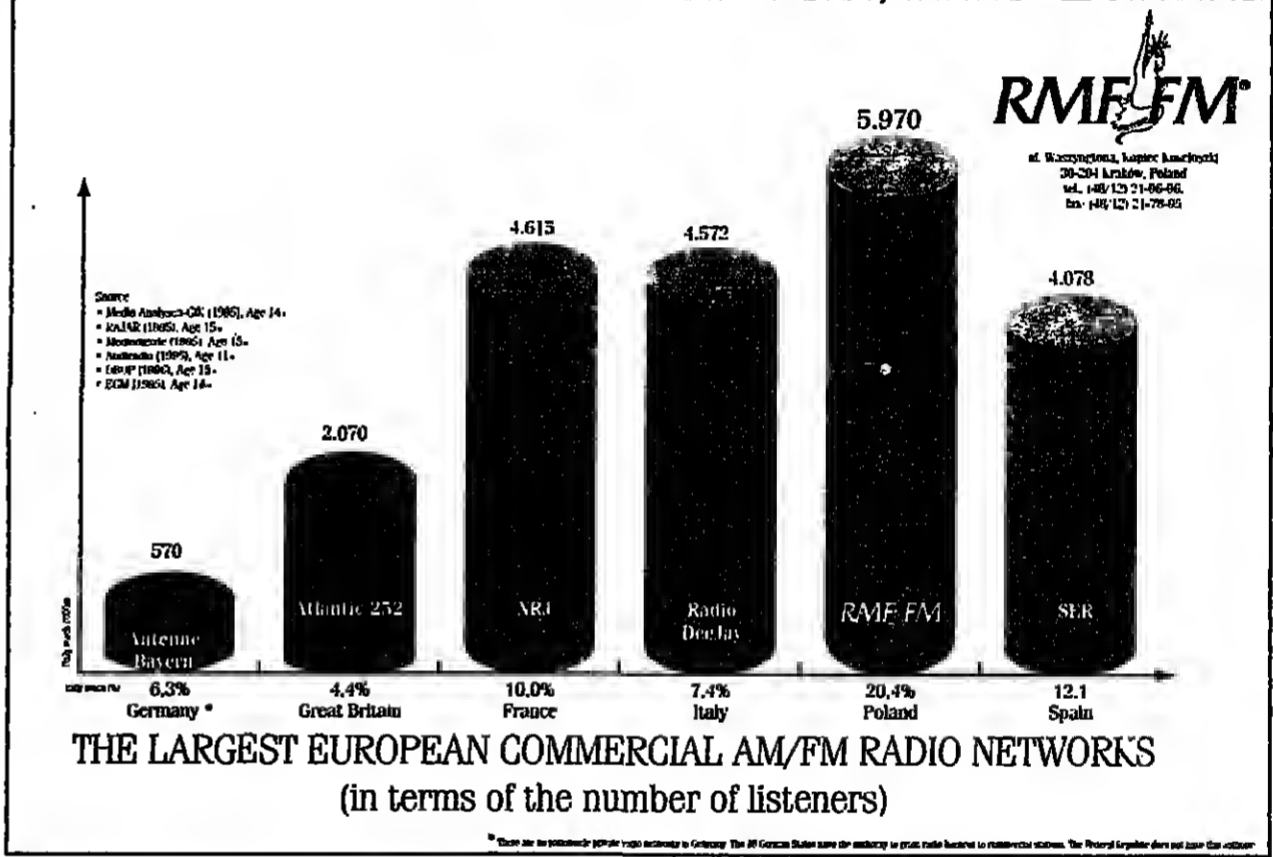
The new continuous casting line provides substantial savings on energy costs while the arc furnace reduces pollution and ooze to a minimum. This year it will produce 250,000 tonnes of steel billets for processing at Labeby's three rolling mills or for sale to outside mills. Full capacity, to be reached next year, is set at 350,000 tonnes.

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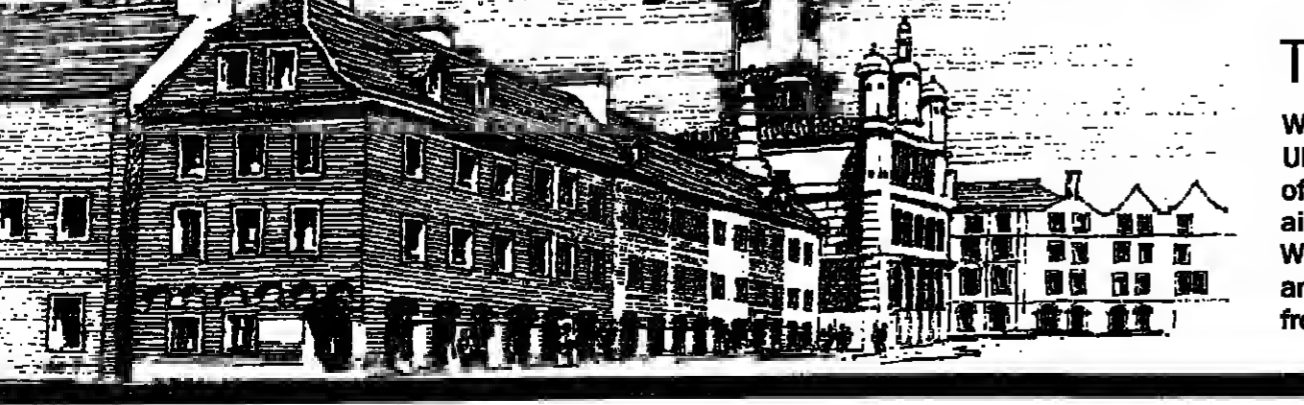
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## 8 POLAND: Anglo-British relations

UK investment: by Anthony Robinson

## Queen's visit reflects new ties

British companies are increasing their commitment to the country in deals worth millions

The first state visit by a British monarch to Poland, which coincides with this survey, celebrates the resumption of friendly official relations, cemented by war-time comradeship, between two peoples far enough apart to enjoy a degree of mutual admiration. London was home to the

wartime free Polish government and Polish airmen played a distinguished role in the Battle of Britain. Poles also fought alongside the allied armies in a long list of other battles inscribed on the war memorial in Victory Square on which the Queen will lay a wreath, and many Polish servicemen and their families remained in Britain after the war rather than returning to the Soviet dominated post-war homeland. The Solidarity revolution of 1989 opened the way for closer links between Poland and the rest of the world, including

Britain, although initially the UK Home Office ran a highly restrictive visa regime inspired by fear that the UK would otherwise be overwhelmed by thousands of work-seeking young Poles. In fact, the boot was rather on the other foot. As the former KGB minders in key Polish ministries faded from the scene, newly strategic ministries such as finance and privatisation suddenly became thick with pin-striped Brits. Warsaw's newly opened Marriott and older established Victoria and Europejski hotels gently throbbled with accom-

panies, management consultants, seconded civil servants, bankers and purveyors of all kinds of arcane advice connected to the then mysterious art of privatisation. It was thanks largely to Mrs Margaret Thatcher. The then prime minister believed that the transfer of practical experience was the fastest and most effective way of helping people in former communist states acquire the skills appropriate for a democratic society and a market economy. She accordingly set up the Know-How Fund.

Much of the advice was given by Anglo-Poles, born and educated in the UK, whose fathers might have been spitfire pilots in the Battle of Britain or fought their way through Italy with the Polish army that General Anders built up from officers and men released from Stalin's captivity in 1941.

Despite the quick start and the good contacts made early on, however, UK-based businessmen have been somewhat slower to open their wallets than their American, German, Dutch, French and Italian counterparts, who have tended to invest and trade more. But those UK companies that have taken the plunge tend to be enthusiastic about their new Polish investments and the relationships they have built up with their local managers and workers.

The proof of such enthusiasm can be seen in rapidly rising trade and investment. According to British figures, UK exports to Poland rose 34 per cent to \$945m last year, of which \$211m was accounted for by North Sea oil. Imports from Poland rose 17 per cent to \$682m, to give a surplus in the UK favour of £307m.

Poland is not only the largest market in the region for UK companies, but also the most attractive place for investment. British companies have been responsible for \$478m of the total \$6,892m that FAIZ, the Polish investment agency, estimates was invested in Poland between 1990-95. They are committed to a further \$223m as part of the \$3,249m package that foreign investors as a whole have pledged.

Interviews and factory visits indicate that the pace of new investment is greater than suggested by the official figures, which only include sums of over \$1m.

According to a survey commissioned by the Department of Trade and Industry in the UK, British companies investing in Poland are attracted by the country's size, prospects of growth and its location as a base for exports. Future Polish membership of the European Union is less of a factor, while few of the companies polled draw attention to the low costs of labour. Disadvantages most often



Workers at Cadbury's \$50m greenfield site on the outskirts of Wrocław

Photo: M. M. / AP

cited include high fiscal burdens and unstable tax regulations. Many consider the local banking system to be ineffective and many criticise the legal system for its "inconsistent provisions", with "many various interpretations of new regulations possible".

Despite these drawbacks, individual commitments are often huge. The biggest single UK investor to date is Pilkington, which has opened a \$188m glass works at Sandomierz in south east Poland. It is followed by the Anglo-Dutch Unilever group, which has invested \$98m, and is committed to another \$40m, and by Cadbury-Schweppes, which has built a \$50m greenfield chocolate factory on the outskirts of

Wrocław, Ukraine and Western Russia.

British Oxygen bought an industrial gas plant next to a site on which British Vita has built a \$10m foam rubber plant while Cussons, which invested \$11.5m in a soap factory, is now having a new \$15m detergent plant built by Bovis Polska. The Polish subsidiary of the UK-based Bovis construction company also built Pilkington's Sandoglass factory and is currently building a \$30m glucose refinery near Wrocław for Cargill, the US agricultural products company and a \$10m bottling plant for Pepsi Cola in Znin, also western Poland.

Bovis is one of a growing number of UK-based construction companies attracted to Poland by rapid growth and the prospect of big infrastructure developments in the years ahead. A new business park under construction by Higgs and Hill and its Polish partner is very visible on the road from Warsaw's new airport to the city. British-based property companies are also playing an active role in the fast-moving Polish property market.

The prospect of large scale expansion by Tesco, the UK supermarket group, which recently bought the Savia supermarket chain, the expected entry of Marks and Spencer and Boots the chemist, together with projected heavy investment in petrol stations and elsewhere by British Petroleum, add to the impression of dynamic growth in Polish-UK business links.

Another indicator is the increasing difficulty of finding seats on some direct flights to Warsaw. British Airways is

working hard to attract Polish and other central European passengers to London for onward flights around the world while LOT, the Polish carrier, has invested heavily in staff training and a new all-

**UK-based construction companies are attracted to Poland by the prospect of big infrastructure projects**

Boeing fleet and reports an 85 per cent rise in business-class travel between London and Warsaw over the first two months of this year. Lot, which is seeking a US strategic partner as part of its privatisation plans, has just been chosen as the best east European airline of the year by Business Travel World magazine.

Oddly, rising trade and investment hardly appear to have been noticed by the British clearing banks. Warsaw hosts a raft of UK-based merchant banks, including Morgan Grenfell, SO Warburg and Schroder with its Schroder Polska subsidiary. Barclays has a representative office and Midland is represented by Midland Montagu Financial Services, but so far the British clearers have not rushed to open branches in what is becoming a market increasingly crowded with their European and US competitors.

**Poland is not only the largest market in the region for UK companies but also the most attractive for investment**

Wrocław in south western Poland.

Cadbury's state-of-the-art factory is one of a cluster of investments by British companies in the Wrocław area. The attractions include helpful local authorities and good road and rail connections to the German market, the 38.5m strong Polish domestic market and opportunities further afield in the Baltic states, Bel-

## CASE STUDY British Vita

## Profit at the push of a button

For British Vita, a medium-sized British plc whose international business accounts for more than 60 per cent of its more than \$200m annual turnover, the decision to build its own polystyrene foam plant at Dolny Brzeg near Wrocław in western Poland three years ago has paid dividends.

"Our Polish plant was profitable from the moment we pressed the start button. We started production in June 1994 and within four months we were working at 90 per cent capacity," says Mr Keith Bradshaw, British Vita's director for Eastern Europe. "Profitability will rise further when the low-cost extension to our existing plant is completed later this year," he adds.

Strong growth and high profitability at its wholly-owned Polish subsidiary have been especially valuable over the past three years, during which the company's overall profitability has been hit. The squeeze is the result of rising chemical raw material costs and fierce competition in British Vita's traditional markets, especially Germany.

Ironically, increasingly tough competitive conditions in the German market are closely linked to the company's success in Poland. The Manchester-based company was originally tipped off to the

potential further east in 1992 when cash-wielding Polish furniture makers turned up at its German plants seeking foam to ship back to factories in Poland.

Vita's customer base and profitability in Germany have been undermined over the past few years as furniture makers and cost-conscious German car companies have transferred production from expensive German factories to cheaper sites in Poland and elsewhere in central Europe. At the same time, demand for foam from locally owned Polish factories has soared, reflecting last year's rise in Polish exports to Germany and other EU markets.

"The only mistake we made in Poland was to underestimate the potential. I wish we'd gone for a bigger plant in the first place," Mr Bradshaw admitted at a recent foreign investment conference organised by the London Business School. "We invested \$7m in building the plant, which has a capacity of 3,000 tons a year and UK-standard environmental protection equipment. The same factory in the UK would have cost \$15m-£20m. Now we are investing a further \$1.5m, but that will raise capacity by 60 per cent."

At current output levels, British Vita has captured 30 per cent of the fast-growing

Polish market. Roughly half its sales are to the Polish subsidiaries of its traditional Dutch and German customers and the rest are to purely Polish companies. All typically export around 80 per cent of their finished products back to western markets.

At present, British Vita sells 95 per cent of its output to furniture and bedding manufacturers, but the automobile industry, a big consumer of foam products, could also become an important customer. The company is poised for rapid growth over the next few years not only in Poland but also in the neighbouring Czech Republic, Slovakia and Hungary, whose markets are all well within the economic 500km distance range from its existing Polish plant.

Volkswagen has a big expansion programme in train at its Skoda plant in the Czech Republic. Suzuki has an assembly plant in Hungary, and General Motors and Dae-woo are both planning substantial investments in Poland as they follow the path blazed by Fiat, which produces over a quarter of a million vehicles annually in Poland.

At present, only 5 per cent of British Vita's Polish production is exported, due to lack of capacity. But with other new markets beckoning further east in Belarus and

Ukraine, British Vita's next move will probably be to set up a new plant in eastern Poland. The investment will be financed by cash flow from its existing operation.

To keep costs down, the company is hoping to buy some of the plant and equipment installed by a Polish entrepreneur in a facility down the road from British Vita's own factory, which is opposite the state-owned Rokita chemical works. If it can buy the bankrupt company's plant, British Vita plans to install it in its projected export-orientated factory in eastern Poland.

The private Polish competitor could not match the quality or just-in-time delivery methods of British Vita. A better fate has touched Zachech. British Vita's main Polish competitor, which had more than 50 per cent of the market before British Vita appeared. Zachech's market share is now down to a third, just ahead of British Vita. It is likely to decline further when British Vita's extension boosts output and sales later this year. But with dynamic market growth there is room for both. This is just as well because Zachech, the market leader, is a subsidiary of the Rokita plant that currently supplies the British company with chemical feed-stuffs and energy.

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